Unique Financial Services
AFSC
ANNUAL REPORT
2003-2004

Vision

...unique financial services to grow Alberta.

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Mission Statement

We help customers in the developing small business and agri-industry sectors fulfill their business goals by offering unique financial services.

2003-2004 Board of Directors

Bob Splane, Chairman, Boyle
Lynn Dechant, Fairview
Gene Dextrase, High Level
Aaron Falkenberg, Sherwood Park
Art Froehlich, Calgary
Barry Holmes, Rocky Mountain House
Bern Kotelko, Vegreville
Brian Manning, Edmonton
Gerard Oosterhuis, Bow Island
Alan Steel, Edmonton
Wayne Wagner, Edmonton

Board Committee Membership

Executive Committee
Bob Splane
Gene Dextrase
Aaron Falkenberg
Bern Kotelko
Alan Steel

Audit Committee
Bern Kotelko
Lynn Dechant
Gene Dextrase
Barry Holmes
Gerard Oosterhuis
Wayne Wagner

Risk Management Committee
Bern Kotelko
Alan Steel

Credit Committee
Aaron Falkenberg
Art Froehlich
Bern Kotelko
Alan Steel
Bob Splane
Wayne Wagner

Hearing Committee
Gene Dextrase
Lynn Dechant
Aaron Falkenberg
Art Froehlich
Barry Holmes
Bern Kotelko
Gerard Oosterhuis

2003-2004 Executive Officers

Alan Steel, President and Managing Director
Andrew Church, Vice-President, Insurance Operations
R. (Krish) Krishnaswamy, Vice-President, Finance
Rick McConnell, Executive Consultant and Research Director
Earl Nent, Vice-President, Lending Operations
Alex Wilkinson, Vice-President, Information Technology and Administrative Services

105-02431/

LETTER OF TRANSMITTAL

June 10, 2004

The Honourable Shirley McClellan
Deputy Premier and Minister of Agriculture, Food and Rural Development
408 Legislature Building
Edmonton, Alberta
T5K 2B6

Minister:

On behalf of the Board of Directors, we are pleased to submit the ninth annual report of the Agriculture Financial Services Corporation.

As required by Section 15 of the Agriculture Financial Services Act (RSA 2000, c. A-12) the report contains a summary of the transactions and affairs of the Corporation, its revenues and the application of its expenditures for the fiscal year ended March 31, 2004. The report also contains audited financial statements, including a balance sheet, a statement of revenue, expense and surplus and a statement of cash flows.

Yours truly,

Bob Splane
Chairman

Brian Manning
Acting President and Managing Director

Minister's Message

For Alberta's agriculture industry, the past year was again a challenge. Following on the widespread drought of 2001 and 2002, the Bovine Spongiform Encephalopathy (BSE) issue of 2003 brought a crisis of unprecedented proportions to our province. With the leadership of Premier Klein and my government colleagues, we were able to work with industry representatives to quickly respond to the needs of the beef producers.

While media coverage focused on the impact on large, specialized beef operations, we should remember that there are thousands of mixed farms in our province that produce both crops and livestock. These family businesses were seriously harmed by BSE, and continue to be to this day.

The resilience of Alberta producers can clearly be seen in the crop sector. After two years of drought, crop production in Alberta essentially returned to normal in 2003 albeit there were still some pockets of severe drought. The total tonnage of crops produced in Alberta was actually 3 per cent higher than the average of the previous 10 years. Significantly, a reliable supply of Alberta feed grains and forages has been restored. This bodes well for the industry as a whole.

Alberta leads in risk management for agriculture

When the BSE-infected cow was discovered in Alberta in May 2003, it was an event without precedent or parallel in our industry. The shock of BSE makes it clearer than ever that we must manage risk with great determination and ample resources.

In 2003-04, AFSC again played a very important role in helping sustain Alberta's agriculture industry. Crop producers benefited from the extensive changes made to the crop insurance program – changes that enabled farmers to protect both production and price.

Alberta was among the first Canadian provinces to commit to the Agriculture Policy Framework (APF) in cooperation with the federal government. From there, we began implementation with all possible urgency. Alberta launched the Canadian Agricultural Income Stabilization (CAIS) program early in 2004. Advance fund payments to producers began to flow as soon as effectively possible. By the end of March, more than $20 million had been distributed to qualified Alberta producers.

Another example of partnership at work is AFSC's $25 million Beef Product and Market Development Loan Program. This program goes hand in hand with the $4 million Beef Product and Market Development Program managed by Alberta Agriculture, Food and Rural Development. The purpose of these programs is to increase market penetration of processed meat from animals more than 30 months of age.

Between Production Insurance, CAIS and other programs offered by AFSC, Alberta producers now have the best set of risk management tools in the country.

The spirit of Alberta Opportunity Company (AOC)

Today's AFSC was created through the 2002 merger of Agriculture Financial Services Corporation and AOC. This made excellent business sense because of the related customer base – agriculture in the case of AFSC and small business and rural business by AOC.

While primary beef producers were impacted the most by BSE, small and rural businesses serving agriculture also suffered. As beef producers cancelled or delayed a range of planned purchases, the impact was felt acutely in the town grocery store, the local machine shop and the district farm supply store, to name a few.

These small, rural-based Alberta businesses – many within AOC's client base – can continue to count on AFSC for unique financial services.

The transition to better times

The experiences of 2001 to 2003 have sharpened our understanding that some events are beyond the control of the individual farm manager or small business owner. The best we can do is to be prepared.

I'm confident that AFSC's dedicated staff will continue to enhance what is already the country's finest portfolio of risk management strategies, income stabilization programs, and agriculture and small business financing products.

By doing so, we'll continue to build our agriculture industry, and rural economy, in a manner that all Albertans can be proud of.

Shirley McClellan
Deputy Premier and Minister of Agriculture,
Food and Rural Development

Chairman's Message

In 2003, the discovery of a case of Bovine Spongiform Encephalopathy (BSE) in Alberta demonstrated how the fortunes of one industry could influence the economy as a whole. While beef producers bore the brunt of the crisis, other industries were harmed as well. During 2003-04, AFSC worked with a broad spectrum of Alberta enterprises – agriculture, small business and rural business – to manage the impact of BSE.

AFSC provides unique financial products and services for those in agriculture and the small business sector, and as such, our services cross many industries. That is how AFSC plays such a vital role in this province.

A farmer buying additional acres to expand a land base; purebred cattle producers building their herds; an entrepreneur selling polyurethane insulation for buildings, RVs and pipelines – what do they have in common? They all asked AFSC to share their vision and assist their progress through loans, insurance and risk management products tailored to their businesses.

These competitive, fast-moving and innovative companies fuel Alberta's economy. At AFSC we know that a dynamic market requires nimble financial managers who are quick to adapt to change. As such, AFSC enhances its products and services every year to help our customers compete. This approach is a critical part of our thinking, and an important part of our strategic goals, as outlined by AFSC's Board and management.

GOAL #1: Growth

AFSC will encourage the growth and development of Alberta's small businesses, farms, and value-added agriculture businesses by providing unique financial services.

One example of a unique new product offering for the marketplace is the introduction of the Beef Product and Market Development Loan Program, a low-interest loan to address the very specific market opportunities for processed meat from cattle more than 30 months of age. Another innovative program, the Alberta Disaster Assistance Loan Program, was extended into early 2004 to help producers regain financial stability after suffering from an agricultural disaster. Both programs work towards building a strong foundation for the long-term future of the agri-business industry.

Strategic alliances with public and private sector partners are another way AFSC broadens the services we offer to Alberta entrepreneurs. In 2003-04, AFSC signed formal partnership agreements in several industries – from the Alberta Food Processors Association and the Indian Business Corporation to other key financial institutions – as a way of enhancing, developing and promoting Alberta businesses.

GOAL #2: Sustainability

AFSC will contribute to the sustainability of the agriculture economy by providing innovative and unique risk management services for farmers.

This past year, AFSC introduced many important changes to improve the function and value of our agricultural insurance and risk management products. This began early in 2003 with significant changes to our crop insurance program. Among other timely changes, the new Spring Price Endorsement and Revenue Insurance Coverage extended crop insurance coverage to market risks as well as production risks.

AFSC led the way with the signing of the Agricultural Policy Framework (APF) in 2003, and continues to be a pioneer in the on-the-ground design and implementation of the new business risk management tool, the Canadian Agricultural Income Stabilization (CAIS) program.

The goal of the APF is to offer more comprehensive risk management tools to producers, and to address that, AFSC will also change the name of our Crop Insurance program to Production Insurance. This way, additional commodities – other than just grain crops – can be insured in the future.

GOAL #3: Research and Development

AFSC will promote and grow Alberta by developing innovative products and services for Alberta and, where appropriate, market this expertise externally.

AFSC is becoming known as a world leader in designing and implementing agricultural insurance. Many jurisdictions seek our advice when setting up their own agricultural programs. This year, AFSC completed a three-year agreement with Chile, and signed agreements to work with the Yukon Territory and the World Bank for India. Negotiations are underway for knowledge-sharing programs with Turkey, Malta and the Ukraine.

GOAL #4: Efficiency

AFSC will be efficient, effective and innovative in its operations while maintaining a high level of internal and external customer service.

AFSC is successful in providing the kind of service our customers need, as evidenced by the high score received on the annual customer satisfaction survey. Our customer satisfaction rating remains high, with rankings between 75% and 89% for each of our core business areas.

AFSC's own staff satisfaction is excellent as well, according to the 2003 Employee Survey of Agencies, Boards and Commissions. AFSC staff indicated a higher satisfaction rating than any other agency or government department in terms of overall satisfaction, coming in at 91%.

While employee and customer satisfaction are critical in offering the quality of services we do, AFSC is always aware that we must create value without exposing the government to undue risk. New for this year is the creation of a Board/Management Risk Management Committee to review the business of the Corporation with an eye toward minimizing risk wherever possible.

We will continue to strive for excellence in all that we do as we seek opportunities for continuous improvement and best practices. We have seen the hope and tenacity of our Alberta producers – even in the face of a sometimes volatile and uncertain marketplace. They are a continuous source of inspiration for us, and we are proud to be in their company.

Bob Splane, Chairman

Corporate Governance

Agriculture Financial Services Corporation (AFSC) is a provincial crown corporation governed by a Board of Directors. AFSC is closely linked with and is partly funded by the provincial as well as the federal governments. AFSC also works with many private sector companies through key business alliances. AFSC reports to Alberta's Minister of Agriculture, Food and Rural Development (AAFRD).

The AFSC Board provides leadership for the organization, especially in the area of corporate governance. Governance practices have been developed to respond to the high expectations of our stakeholders and include the best practices established for Canada's businesses. AFSC's corporate governance practices provide a disciplined approach to business to ensure AFSC fulfills its mandate without exposing the Corporation to undue risk. The Board works with AFSC management while maintaining their independence, a primary principle for successful corporate governance.

Board Stewardship

AFSC's Board was one of the first government organizations in Alberta to formalize and enhance a number of governance-related processes and procedures, underscoring their longstanding commitment to corporate governance.

As part of these governance practices, the Board ensures appropriate checks and balances are observed and understood by all. A Board Governance Handbook is used to orient new Board members, as well as to provide a reference for existing members. The Board's code of conduct and ethics is acknowledged in writing and reviewed annually. As part of the annual Board evaluation, each Board member completes a Board Performance Evaluation Questionnaire and a self-assessment of their performance as a director.

All Board Committees have been proactive in keeping abreast of new business practices and the responsibilities required of them. Their due diligence processes have improved controls and enhanced the Board's monitoring of corporate results. As a key component of this, a new Board committee – the Risk Management Committee – has been established to identify and address the higher risks associated with the current agricultural environment and to assess the Corporation's business transactions from the standpoint of financial exposure.

Mandate of the Board

In addition to fulfilling its statutory requirements, AFSC's Board of Directors has identified 12 key areas that it must direct and govern:

1. Ensure the Board is organized with the necessary processes to effectively fulfill its mandate;
2. Ensure principal business risks of the Corporation are identified and effectively managed;
3. Protect the Corporation's assets;
4. Establish the strategic course for the Corporation through the annual directional plan;
5. Identify business outcomes and evolve performance expectations and measurement criteria;
6. Ensure that proper internal control mechanisms are in place; ensure the integrity of those internal controls and management information systems;
7. Oversee the management of the Corporation;
8. Monitor performance results and evaluate management performance;
9. Ensure that management development and succession plans are established;
10. Orient new Board members;
11. Monitor corporate communications strategies; and
12. Report results to the Minister and other Corporation stakeholders.

Board Membership

Board members represent the interests of the Corporation and its stakeholders while providing leadership and direction for effective and efficient governance of the Corporation. The Board is comprised of agriculture business owners, entrepreneurs and professionals who have extensive experience in the agriculture and business sectors. The Board has 11 members, including the Deputy Minister of the Ministry of Agriculture, Food and Rural Development, and AFSC's President and Managing Director. The rest of the Board members are outside directors. A complete list of Board Members can be found on the first page of this Annual Report. The Board generally meets monthly to conduct the Board business of the Corporation. Directors are compensated as outlined in Schedule 3.

Board Committees

Each committee has its own terms of reference, job description and reporting requirements, which are annually reviewed and updated. Board committee roles are briefly outlined below. For purposes of independence, the Audit Committee and Hearing Committee are composed of directors other than the Chairman, the President and Managing Director, and the Deputy Minister. See the first page of this Annual Report for a list of Board Members by committee.

Executive Committee: Conduct urgent Board business between regular Board meetings; review governance practices; address human resource issues; review committee structure and membership; review Board performance appraisals; and review budget processes.

Audit Committee: Ensure policies and objectives of the Board are integrated in the business planning and budget process; review quarterly forecasts and financial statements and obtain management explanations for significant variances between budget, forecasts and actual results; review and approve internal audit plans which focus on business risk identification and management, review internal audit processes and controls, and meet with external auditors; review and recommend annual financial statements to the Board, follow up on internal and external audit recommendations for compliance.

Credit Committee: Authorize loans or guarantees that exceed prescribed limits of management's authority to approve and recommend lending policies changes to the Board.

Risk Management Committee: Review the key strategic, operating, and financial risks faced by AFSC and the controls that are in place to mitigate these risks; monitor economic and industry trends and developments that may have a significant impact on risks to AFSC; document risk identification and management plans in proposals of significant policy, legislative and program changes, major information technology projects, and other project charters which impact AFSC's risks; and promote risk management practices as an essential component of successful corporate culture in AFSC.

Hearing Committee: Oversees appeal and review committees which hear appeals of insurance contract holders and decide claims within policy and legislation, and hear reviews of farm loan and Farm Income Disaster Program applicants and recommend action to the Board.

Meetings Held and Attendance of Directors

The information below sets out Board of Directors and Committee meetings held and attendance of Directors for the year ended March 31, 2004.

Director	Board Meetings Attended	Committee Meetings Attended
Dechant, Lynn	16 of 16	11 of 12
Dextrase, Gene	15 of 16	18 of 18
Falkenberg, Aaron	15 of 16	21 of 22
Froehlich, Art	15 of 16	13 of 16
Holmes, Barry	15 of 16	12 of 12
Kotelko, Bern	16 of 16	31 of 32
Manning, Brian	11 of 16	0 of 0
Oosterhuis, Gerard	15 of 16	11 of 12
Splane, Bob	16 of 16	20 of 20
Steel, Alan	15 of 16	17 of 20
Wagner, Wayne	14 of 16	15 of 16

Board's Expectations of Management

Under the leadership of the President and Managing Director, management is expected to prepare and implement strategic and tactical plans for the Corporation to achieve the goals identified in the Board's directional plan. Management is expected to ensure that adequate operational and internal controls are in place to protect the interests of the Corporation, and achieve predetermined measurable results. Management is also expected to operate within the corporate mandate, legislative authorities and follow government and Board directions.

Management Discussion and Analysis

Financial Highlights

The following analysis should be read in conjunction with AFSC's financial statements and notes to those financial statements.

AFSC recorded an overall surplus of $66 million for 2003-04. Due to higher participation and better than normal crop production than the previous year, AFSC recorded a surplus of over $60 million in its crop insurance operations.

The Farm Income Disaster Program (FIDP) was cancelled after the 2002 taxation year and replaced with the Canadian Agricultural Income Stabilization (CAIS) Program for the 2003 taxation year and beyond.

Indemnities dropped to $608.8 million from $888 million the previous year mainly due to lower crop losses - offset by an increase in indemnities under FIDP and the CAIS Program.

AFSC's loan portfolio increased to $988 million from $966 million due to an increase in farm and commercial lending. As at March 31, 2004 allowance for doubtful debts on total loan portfolio was 4.27% (March 31, 2003 - 4.0%), not a significant change. Allowance for doubtful debts on farm loans portfolio is 3.7% (March 31, 2003 - 3.4%) while the same on commercial plan portfolio is 6.9% (March 31, 2003 - 7.2%).

Risk Management

AFSC adopts an integrated approach to risk identification management that is critical to protecting our customers, our stakeholders and our business interests.

Credit Risk

Credit risk is the possibility that a debtor won't pay amounts owing to AFSC, thus resulting in a loss. To mitigate this risk, AFSC has developed the following policies.

Lending staff manages AFSC's credit risk exposure relating to beginning and developing business loans by monitoring accounts very closely. This enables AFSC to counsel owners of businesses to take proactive action if problems start to occur, and it also lets AFSC take prompt action to realize on its security. Security requirements for individual loans are tailored to the degree of risk in each specific operation. For example, enterprises needing specialized or customized equipment, or those involved with new and emerging businesses, are required to have significantly higher security margins than enterprises in more established businesses. Although these measures do not eliminate the risk, they do reduce the risk of significant losses in the event of a province-wide economic downturn.

In order to mitigate credit risks associated with reinsurance operations, AFSC – through its reinsurance broker – monitors the concentration of credit risk for the insurance contract it holds with each reinsurer and evaluates the financial condition of each reinsurer. There is no significant reliance on any one reinsurer.

Policies established for investing surplus funds for crop insurance or straight hail insurance minimize credit risk by allowing investment only with the Government of Canada, or any Canadian provincial governments and/or corporations that have superior credit quality.

Interest Rate Risk

Interest rate risk is the impact future changes of interest rates have on cash flows and fair value of assets and liabilities. To mitigate this risk, AFSC matches the repayment timing of amounts borrowed with the repayment timing of loans made as closely as is practical. As at March 31, 2004, the gap between the amount of loan and debt repayments due for period one to five years is reasonable. The debt due over five years is about $73 million lower than the loan repayments received during the same period because the loans due over a period of more than five years are funded partly by the accumulated surplus from lending operations of $58 million. Overall, the gap and consequent risk is low.

AFSC's Investment Policy strives to achieve a reasonable rate of return on forecast surplus funds in Crop Insurance and Hail Insurance funds based on historical information modified for current factors.

Lending Operations

In addition to managing credit and interest risks, AFSC lending staff keeps a constant eye on any economic factors that could significantly influence the performance of our loan portfolio. For example, staff are trained to ensure adequate allowances are made for doubtful accounts and losses. One area where this is put into place is in lending to beginning and developing farmers. Since this group can be less established than other businesses, loans to these customers can expose AFSC to higher risk. To compensate for this risk, AFSC carries significant allowances for doubtful accounts and losses. Most farm loans are secured by land, whereas commercial loans are secured by a variety of assets including land, building and equipment.

Commercial loan security is unique to a particular business and often has reduced resale value, which resulted in allowances for commercial loans set at a higher level than farm loans.

Insurance Operations

AFSC's insurance operations manages risk through establishing premium rates that reflect actuarially sound business principles, plus through public and private sector reinsurance. Premium rates are based on actual results of the programs, but also take into consideration the amount that is needed to make each program actuarially sound over a reasonable period of time.

In recognition of the risks involved in paying out larger-than-normal crop insurance claim amounts, like those experienced during the 2002 crop year, AFSC arranges for reinsurance every year. AFSC management has secured government reinsurance arrangements for all crop insurance programs in accordance with the federal and provincial Agricultural Policy Framework agreement. As well, AFSC management has arranged private reinsurance contracts to mitigate the risk exposure of both the federal and provincial governments in larger-than-normal payout years.

In order to minimize risks associated with uncollected premiums, a discount is provided for early payment of premiums while payment arrangements are set for all customers not taking advantage of the offered discount. Insurance staff closely monitors outstanding premiums and collection action is taken promptly when required. Insurance contracts cannot be renewed if premiums for the prior years are outstanding at the time of renewal of insurance contracts.

Corporate

In addition to the above, AFSC management ensures that sound business practices are followed in all parts of the business. To protect the integrity of our programs, staff follow best practices wherever possible and receive specialized training to ensure they have the required skills and experience needed to minimize business risks. Strong controls and procedures are in place to mitigate risk including solid business planning and forecasting, prudent financial controls, effective internal controls, sound computer system controls and effective policies and procedures. As part of its control processes, AFSC's internal audit department plans and conducts audits based on risk assessments. This group provides feedback on compliance and performs operational and functional audits as set out by the annual internal audit plan.

During the year, AFSC established a Risk Management Committee consisting of senior staff and Board members to ensure adequate policies and procedures exist to identify and mitigate risks in all areas of operations.

We also take many steps to avoid the risks inherent in managing people. Our staff are the most important business resources we have. We recognize that for AFSC to achieve our goals, we must retain skilled and experienced staff. To that end, AFSC employees receive equitable treatment, are encouraged to delegate responsibility with authority, have excellent access to training, are given meaningful opportunity for advancement and receive competitive remuneration and benefits. Performance evaluations keep employee and employer goals on track, and staff are rewarded to recognize their good work and long service. We are happy to report a highly motivated and satisfied work force.

As AFSC continues its important work of providing entrepreneurs in Alberta with the unique financial options they need to build viable businesses, we will do so in a fiscally responsible manner that also ensures the long-term viability of our own business operations.

Business Plan

AFSC takes an active approach to business planning by setting out goals, strategies and targets in three-year cycles, and reviewing the plans annually. As part of this Management Discussion and Analysis, goals and their performance measures are presented based on the seven goals outlined in the 2003-2006 Business Plan. These seven goals are detailed below. In 2003, the goals were revised and amalgamated into four goals for the 2004-2007 Business Plan.

Goal 1: AFSC will encourage the growth and development of Alberta's business economy through the use of commercial financial services and leveraging AFSC funds.

Goal 2: To help industry achieve its goals, AFSC will offer unique farm financial services to assist beginning farmers to establish potentially viable farms.

Goal 3: To provide risk management and safety net products that enable our customers to be successful.

Goal 4: To continuously research and develop our unique products to meet customers' needs.

Goal 5: To continuously improve service delivery to achieve high levels of customer satisfaction.

Goal 6: To improve cost efficiency and Grow Alberta. AFSC will market its services to other jurisdictions in Alberta, Canada and internationally.

Goal 7: To manage AFSC so it is effective, efficient and innovative.

Business Operations

AFSC provides loans to farming operations, small businesses and agri-industry sectors. AFSC delivers crop insurance, income stabilization and disaster assistance programs to farming operations. In addition, AFSC provides financial counselling and business advice to customers to help them develop their own sound business management skills and work out financial challenges as they develop their operations.

AFSC provides unique financial services to Albertans who continue and grow their businesses in the agriculture and small business sectors. AFSC contributes to sustaining agriculture and rural economies in the province by helping our customers manage their risk and find financing that's appropriate for their business development. We strive to be responsive to our customers, in a way that is relevant and satisfying. As such, we continually seek new and innovative ways to deliver lending, insurance, risk management and income stabilization products and services to those who drive our provincial economy.

Figures in the Business Operations section reflect actual transactions up to March 31, 2004, while information in the Financial Statements include adjustments, such as accruals.

Insurance

Business Profile

The Canada-Alberta Crop Insurance program is a component of Alberta's business risk management offering. Risk management tools – like insurance for crops – are necessary to help producers compete in a fast-changing global marketplace. As crop insurance is aligned closer to the Agricultural Policy Framework (APF), the name "Crop Insurance" – in use for more than 30 years in Alberta – will be changed to "Production Insurance" to allow the inclusion of commodities other than grain crops. Since "Production Insurance" is more of a future direction, for the purposes of this Annual Report, we will use the term "Crop Insurance" as it more accurately reflects the type of insurance that was offered in 2003-04. AFSC's insurance programs are voluntary and can be personalized to any farm business. The producer chooses what works best for their operation – which crops to insure, and the level of coverage for each crop. Insurance includes Crop Insurance, Hail Insurance, Forage Insurance and Waterfowl and Wildlife Damage Compensation. There are in excess of 140 plans available for over 60 different crops. In 2003, the Spring Price Endorsement (SPE) option – which includes Revenue Insurance Coverage (RIC) – was introduced so producers could cover market price risks as well as production risks. The SPE option protects insured producers against significant drops in market prices between the time seeding decisions are made and when crops are harvested. RIC sets a floor price to help producers offset the effects of long-term low market prices.

Operational Highlights

- Crop Insurance was purchased on 12.2 million acres, an increase of 1.1 million acres over 2002
- Of those acres covered by Crop Insurance, 9.3 million acres were covered by the Hail Endorsement rider, and 4.1 million were covered under the SPE option
- Forage Insurance (hay and pasture) was purchased on 12.2 million acres, an increase from 9.7 million acres in 2002
- Due to improved crop conditions, Hail Insurance increased to 3.8 million acres and 6,109 policies in 2003, up from 3 million acres and 5,105 policies in 2002
- Total insurance premiums increased to $383 million, up from $249.2 million the previous year
- AFSC paid $253.1 million in crop, SPE, forage (hay & pasture), waterfowl and wildlife damage, and hail insurance claims, much lower than the record payment of $799.4 million in 2002
- Included in the total claims paid was $79.2 million for the SPE option, paid on 5,582 contracts

- A total of 18,946 insurance contracts had claims in 2003, less than the previous year's 22,240 insurance contracts with claims
- The average 2003 claim amount was considerably lower than the previous year at $13,000 in 2003, compared to $36,000 in 2002 (when the highest payouts ever were made under the crop insurance program)

Crop Insurance

AFSC Crop Insurance gives producers a variety of cost-effective strategies to manage risk in their operation. Crop Insurance provides a production guarantee on crop losses due to natural perils, and special features are available for farmers who want increased income protection.

Crop Insurance is available for acres seeded to grains and oilseeds, grain corn, sugar beets, vegetables and a number of specialty crops, including honey. Farmers pay only a portion of the premium cost for Crop Insurance, as the federal and provincial governments pay 50% to 80% of the premium, depending on the coverage level selected (see funding information following).

Several significant changes were announced in the 2003 crop year to respond to the needs of customers, including the ability to cover market price risks as well as production risks. New features – such as the Spring Price Endorsement and Revenue Insurance Coverage can be added to the insurance policy for those who want increased income protection. The Variable Price Benefit is now a permanent part of the program to provide higher compensation to producers in a payment position if crop prices increase during the year, and cushioned yields are now used in the calculation of risk area normal yields to lessen the impact of low yields on an individual farmer's coverage.

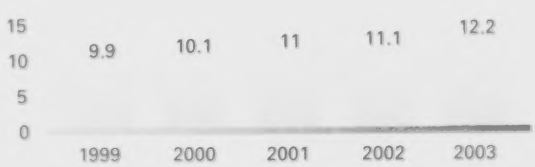
The number of contracts increased from 15,078 the previous year to 16,826 for Crop Insurance and from 12,064 the previous year to 12,825 for Hail Endorsement. A corresponding increase in acres covered was noted at 12.2 million acres for Crop Insurance (up from 11.1 million acres) and 9.3 million acres (up from 8.9 million acres) for Hail Endorsement. Coming off of the 2002 crop year, one of the worst in Alberta's history, many producers continued to see crop insurance as an important way of managing risk on their farm. A record 24.4 million acres were covered under Crop Insurance (including Forage Insurance – see Forage Insurance section for more details). Another important indicator for the Crop Insurance program was the high level of risk covered at $2.0 billion for the year.

In 2003-04, Crop Insurance (including Hail Endorsement and Spring Price Endorsement) claims totalled $222 million. Premiums collected for Crop Insurance (including Hail Endorsement and Spring Price Endorsement) totalled $313.2 million. A drop in price of 10% or more for almost all insured commodities resulted in a $79.2 million payment under the Spring Price Endorsement (SPE) feature on 4,957 policies. Approximately 33% of producers buying Crop Insurance elected the SPE option.

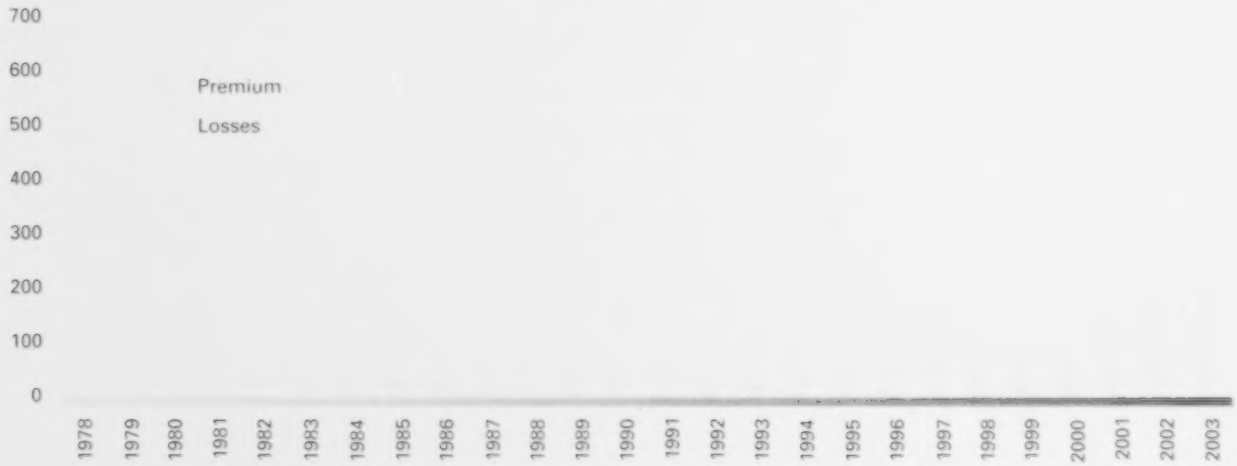
Funding: Crop insurance funding is in accordance with the federal/provincial Agricultural Policy Framework (APF) agreement. Crop insurance is funded by premiums from producers, the province of Alberta and the government of Canada. The funding is dependant on coverage levels insured by producers. Coverage up to 50% of risk is funded 20% by producers, 32% by the province of Alberta and 48% by the Government of Canada. Coverage above 50% of risk is funded by 50% by the producers, 20% by the province of Alberta and 30% by the Government of Canada. In addition, the Government of Canada funds 60% and the province of Alberta funds 40% of the net administration and adjusting costs.

Crop Insurance Fund is established to account for all revenue and expenses including claim payments related to the crop insurance program. Over the past several years, the province of Alberta has enhanced the crop insurance program features. Some of the enhancements are not cost shared by the federal government, as they were considered not consistent with the national crop insurance program. The crop Insurance Program results in Schedule 1 of the financial statements includes both the national program and Alberta Initiatives. The surplus balance of $90.6 million in Crop Insurance Fund is made up

Crop Insurance Acres Insured 1999 to 2003 (in millions)



AFSC Crop Insurance Loss to Premium 1978 to 2003 (millions of dollars)



of $80.5 million surplus representing the national crop insurance, $30.9 million surplus representing Alberta Initiatives and a deficit of $20.8 million representing the Crop Reinsurance Fund of Alberta.

In addition, two crop reinsurance funds are established, a provincial reinsurance fund called the Crop Reinsurance Fund of Alberta and a federal reinsurance fund called Crop Reinsurance Fund of Canada for Alberta. Surplus balances in these two Funds and the Crop Insurance Fund determine the share of premiums to be transferred to the two reinsurance funds and how indemnities are funded from each of these funds. AFSC administers and accounts for the provincial reinsurance fund. For financial statement purposes, the provincial fund is consolidated with the crop insurance fund. Government of Canada holds the federal reinsurance fund. For the fiscal year ended March 31, 2004, $24.1 million was contributed to Crop Reinsurance Fund of Alberta and $32.6 million was contributed to Crop Reinsurance Fund of Canada for Alberta. No contribution was required for the fiscal year ended March 31, 2003 because surplus balances at the beginning of the fiscal year 2002/03 were considered adequate to pay potential claims. A summary of transactions in the two reinsurance funds is under Note 17 to the financial statements.

Forage Insurance (Hay and Pasture)

The impact of the severe drought of 2002 – one of the worst in Alberta's history – was still fresh in the minds of Alberta producers, prompting them to insure a record number of hay and pasture acres in 2003-04. Under AFSC's three Forage Insurance options (one for hay crops and two for pasture), 12.2 million acres were covered, compared to 9.7 million the previous year.

For hay crops, Forage Insurance offers a specific production guarantee to producers. This insurance is available on an individual coverage basis, and compensates for production losses on hay crops due to damage caused by natural perils. For 2003-04, participation in Hay Insurance increased over the previous year, with participation at 4,618 contracts on approximately 951,000 acres, compared to 2,977 contracts and 658,000 acres in 2002.

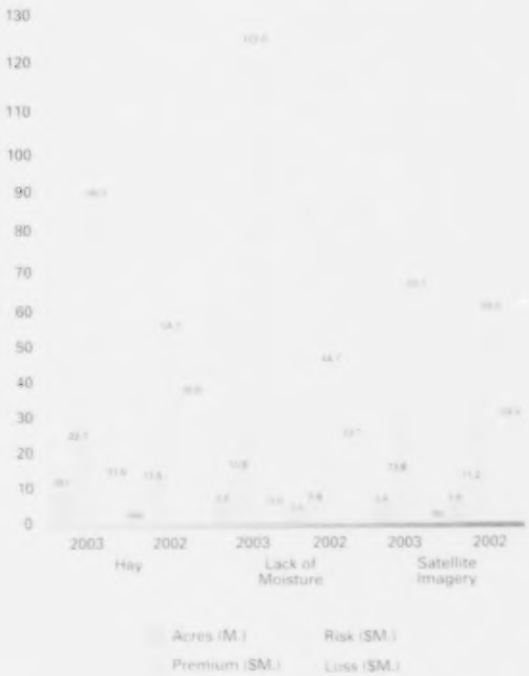
Both of the pasture programs had strong participation for the 2003 crop year. Participation for the Lack of Moisture Insurance Program increased by about 50% to a total of 7,044 policies on 5.6 million acres. This program is a province-wide, area-based insurance option that helps producers protect their pasture against lack of moisture at weather stations selected for insurance by producers. The Satellite Imagery Insurance Program, available only in selected areas of southern Alberta,

remained steady at 1,980 policies on 5.6 million acres of pasture. Claims paid amounted to $5.2 million for both pasture programs, a significant reduction over the previous years' payment of $53.5 million.

In order to reassess producer needs and expectations for pasture insurance, AFSC decided to cancel the Lack of Moisture program for the 2004 crop year. AFSC is working diligently to provide a more effective program in future. The Satellite Imagery Insurance program was suspended to allow time to explore opportunities to offer a satellite technology program on a province-wide basis in the coming years. AFSC refunded premiums (less any claims) to all producers for 2003 pasture insurance.

Funding: Funding rules are the same as what was disclosed above for Crop Insurance.

Highlights of Forage Insurance Program



Hail Insurance

Hail Insurance is available to farmers as affordable one-peril coverage. Coverage can be taken in addition to Crop Insurance, or on its own. Farmers insure up to a maximum dollar coverage per acre, with losses paid based on the percentage of damage that occurs.

Participation in Hail Insurance was up in 2003-04 due to a better outlook for the production of crops. Just over 3.8 million acres were insured under 6,109 contracts, as compared to 3 million acres under 5,105 contracts the previous year. Premiums collected amounted to $17.1 million, an increase of 27% over the previous year, and claims paid also rose to $12.3 million, an increase of $2.1 million over 2002. Efficient administration and an operating surplus resulted in a rebate of approximately $4.6 million paid back to all Hail Insurance policyholders for 2003.

Funding: All funding for the program comes from producers. Premiums from producers cover indemnities, administration expenses, adjusting expenses and reinsurance costs.

Waterfowl and Wildlife Damage Compensation

The no-premium Waterfowl and Wildlife Damage Compensation program covers crop losses caused by migratory waterfowl, big game animals and upland game birds. Payment covers damaged crop that is either standing or in swaths, or stacked hay subject to certain conditions.

In 2003-04, there were 463 Wildlife claims for $1.5 million and 125 Waterfowl claims for $543,000, resulting in a total of 588 for $2 million for the program. This compares to 453 Wildlife claims for $1.9 million and 303 Waterfowl claims for $1.7 million in 2002-03. Wildlife claims continue to be above average, especially in the Peace River region, while Waterfowl claims were lower than average due to the early harvest in 2003.

Funding: The Government of Canada funds 48% of indemnities. The Province of Alberta funds the remaining 52% of indemnity costs. The Government of Canada funds 60% of administration and adjusting costs of the program while the Government of Alberta funds the remaining 40%.

Performance Measures

Business Goal 3:

To provide risk management and safety net products that enable our customers to be successful.

Key Result

Products are being used by clients to meet industry's changing risks.

Measure

Participation rate of insurance program.

Performance

- 83% of Alberta's eligible annual seeded acres were operated by insured farmers; and 45% of perennial forage crops. (Target: 75% of total eligible acres; 40% of perennial forage crops)
- 12.2 million acres of annually seeded crops insured under Crop Insurance, (Target: 12.6 million acres insured) and 12.2 million acres of forages insured under Crop Insurance
- AFSC covered $2.0 billion in risk under Crop Insurance ($1.7 billion for annually seeded crops and $0.3 billion for forages)

Measure

Number of crop insurance plans available each year.

Performance

- There are in excess of 140 plans available for over 60 different crops.

Key Result

Products that customers want are targeted to cover important risks.

Measure

Percentage of farmers for which identified priority risk products are available.

Performance

- 68% of insurance customers agreed that AFSC provides products that cover the higher risks identified by producers, compared to 81% in 2002. The current satisfaction was lower than the comparative baseline year since 2002 was one of the worst crop years on record and large payouts resulted in high customer satisfaction. Another factor that could be contributing to lower satisfaction was that some producers did not feel the existing pasture programs were able to meet their needs. AFSC has decided to reassess producer needs and expectations and will continue to look for an effective program for future.

Key Result

Enhance stability to the farm unit.

Measure

Percentage of farmers who say products provide stability or overcome disaster.

Performance

- 87% of insurance customers agreed that AFSC provides insurance products that help them cover for the loss of production
- 77% of insurance customers agreed that AFSC provides insurance products that help them withstand economic or price instability
- 81% of insurance customers agreed that AFSC provides insurance products that help them overcome disastrous agricultural situations
  (Target: 2002-03 is a baseline year for this target. Baseline year percentage was 83% of insurance customers agreed that AFSC provides insurance products that provide stability or help overcome disaster.)

Business Goal 4:

To continuously research and develop our unique products to meet customers' needs.

Key Result

Product development (new products and existing products) is focused on customer and stakeholder needs.

Measure

- Number of recommendations or proposals for new or modified production and income risk management programs and products
- Number of new products implemented

Performance

- Implemented three new plans for 2003 crop year:
  - Spring Price Endorsement program
  - Revenue Insurance Coverage program
  - Variable Price Benefit included as an automatic feature under crop insurance
- Enhanced eight features of insurance programs for 2003 crop year:
  - used cushioned yields in establishing risk area normals
  - silage greenfeed barley proxy program extended to provincial level
  - silage greenfeed barley Lack of Moisture program extended to provincial level
  - enhanced coverage to reflect regional productivity under both the Satellite and Lack of Moisture programs for pasture
  - expanded coverage of bush pasture under both Satellite and Lack of Moisture programs for pasture
  - expanded the number of weather stations available for coverage under the Lack of Moisture programs for pasture and silage greenfeed
  - allowed producers to elect coverage at up to three weather stations under the Lack of Moisture programs for pasture and silage greenfeed
  - added three weather stations under the Corn Heat Unit Insurance program

(Target: Research and develop 14 new or improved risk management/loan plans by the end of 2005/06. This target is for the whole of AFSC.)

Farm Income Stabilization

Business Profile

In 2003-04, AFSC delivered two income stabilization programs, the Farm Income Disaster Program (FIDP) and the newly introduced Canadian Agricultural Income Stabilization (CAIS) Program.

FIDP continued as Alberta's main income safety net program in 2003-04, covering losses experienced in the 2002 taxation year. FIDP provides income support for actively farming Alberta producers when, for reasons beyond their control, there is an extreme reduction in their farm income. This is a whole-farm safety net program. There is no premium or fees and all agricultural commodities are eligible.

By mid-2003, Alberta was among the first provinces to sign the Agricultural Policy Framework agreement to participate in the CAIS Program. The CAIS Program is an initiative of the federal, provincial and territorial governments that provides protection for producers when they experience a drop in margin. The CAIS Program replaces FIDP and the Net Income Stabilization Account (NISA). The program is effective from the 2003 taxation year. Producers must decide to participate in the CAIS Program each year to receive assistance.

Operational Highlights

- Due to widespread drought, the 2002 claim year had the highest payout and number of claims in FIDP history, at $249.9 million on 8,527 claims
- FIDP payments averaged $29,307 per claim
- The Camrose Region experienced the highest percentage of FIDP claims in the province, at $130.2 million, or 52% of total claims
- The Red Deer Region experienced its highest FIDP payout ever at $64.7 million, or 26% of the total claims
- As of March 31, 2004, more than $20 million was paid on 806 claims for the 2003 taxation year under the CAIS Program

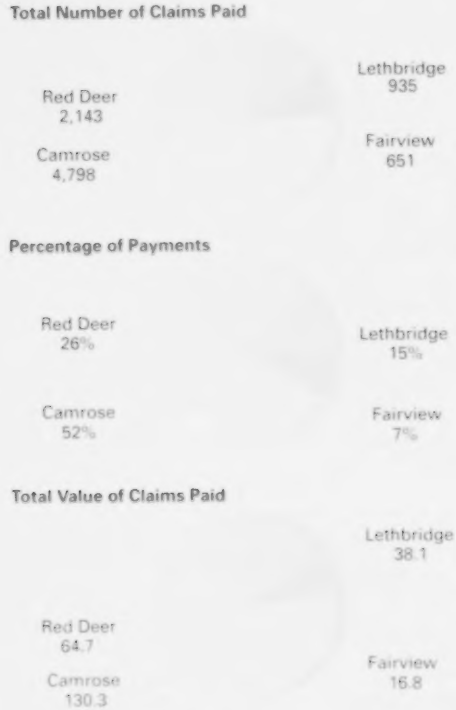
Farm Income Disaster Program

FIDP provided compensation to farming operations when there was an extreme reduction in their farming income. While FIDP ended with the 2002 taxation year, the deadline for submission of applications ended on September 2003. Hence, a vast majority of applications were processed and paid during the 2003-04 fiscal year. Applicants were eligible for a FIDP payment, subject to certain conditions, when their "claim year margin" (the difference between allowable farm revenue and allowable farm expenses) dropped below 70% of their program reference margin. A program reference margin is the average of the three highest program margins out of the five years immediately prior to the claim year. However, if one of the previous years has already been used for a 1998 or later claim, the highest year program margin will be reduced to equal the next highest year's program margin. Any additional entitlements under Canadian Farm Income Program (CFIP), the national safety net program, are automatically calculated for all FIDP applications received.

FIDP staff have consistently used electronic means to deliver services to FIDP customers through the AFSC website. Farmers and accountants can download the latest FIDP Guide, FIDP application forms, worksheets to assist with the completion of claim forms available online, and even a FIDP calculator that allows farmers to enter early information to see what a potential payment under FIDP may be. 82% of AFSC customers said they used the website to access FIDP information.

Funding: Based on the Federal-Provincial Agreement, the Government of Canada and the provincial governments have agreed to fund CFIP. It has been further agreed that the provincial FIDP will be used to deliver the majority of this assistance in Alberta. In accordance with the Federal-Provincial Agreement, CFIP indemnities are funded 60% by the Government of Canada and 40% by the Province of Alberta. In cases where FIDP indemnities exceed CFIP, the Province of Alberta funds the additional amount. The Province of Alberta funded 55% of FIDP and CFIP indemnities, the Government of Canada funded 45%. In accordance with the Federal-Provincial Agreement, administration costs, net of any fees and other income, are funded 56% by the Federal Government and 44% by the Province of Alberta.

FIDP Payments by Region for the 2003 Claim Year



FIDP Payment History

Claim Year	Number of Claims Received	Number of Claims Paid	Amount Paid ($M.)
2002	12,207	8,527	249.9
2001	6,162	3,850	101.2
2000	5,740	3,559	108.9
1999	6,533	4,471	93.2
1998	8,132	6,544	148.7
1997	3,893	3,143	55.7
1996	4,572	3,625	57.8
1995	6,000	4,951	63.9

Figures shown as of March 31, 2004.
FIDP is terminated effective December 31, 2002. The 2002 claim year is the last year of the program.

Canadian Agricultural Income Stabilization (CAIS) Program

The CAIS Program was officially launched in early 2004 once the required number of provincial governments had agreed to participate in this national business risk management program. The CAIS Program is based on the principle that producers and governments should share the cost of replacing lost income. The program pays out when an applicant's program year margin falls below their reference margin. Reference margin is calculated by using a production margin (production revenue minus production expenses taken from each year's tax information) for each of the five years prior to the program year. The high and low production margins are removed and the three remaining years production margins are averaged to arrive at reference margin.

Producers annually select a level of protection, make the required deposit into a CAIS account, and thus immediately secure entitlement to government benefits to be paid out when they experience a margin decline. The deadline to elect for the CAIS Program protection levels for the 2003 program year is May 31, 2004. As of March 31, 2004, more than 30,000 Alberta producers have indicated their intent to participate in the CAIS Program for 2003 and 2004.

Funding: Funding for CAIS Program is in accordance with the federal/provincial Agriculture Policy Framework agreement. The Government of Canada funds 60% of claim payments and the costs of delivering the program while the Government of Alberta funds the remaining 40%.

Performance Measures

Business Goal 3:

To provide risk management and safety net products that enable our customers to be successful.

Key Result

Enhance stability to the farm unit.

Measure

Percentage of farmers who say products provide stability or overcome disaster.

Performance

- 76% of FIDP customers agreed that the FIDP payment provided them with stability or helped them overcome disaster for the 2002 year, as compared to the previous year's 78%

  (Target: 2002-03 is a baseline year for this target. Baseline year percentage was 78% of FIDP customers agreed that FIDP provides stability or helped them overcome disaster for the 2000 claim year.)

Business Goal 4:

To continuously research and develop our unique products to meet customers' needs.

Key Result

Product development (new products and existing products) is focused on customer and stakeholder needs.

Measure

- Number of recommendations or proposals for new or modified production and income risk management programs and products
- Number of new products implemented

Performance

- Researched and implemented two new programs in 2003-04:
  - the Canada-Alberta Producer Assistance Program was in place by end of 2003 as a transition measure to get advance payments to producers until the CAIS Program was fully in place
  - the CAIS Program was launched early in 2004

  (Target: Research and develop 14 new or improved risk management/loan plans by the end of 2005/06. This target is for the whole of AFSC.)

Farm Lending

Business Profile

AFSC takes a long-term approach to farm lending by offering loan products with competitive interest rates (producers have the option to fix interest rates up to the life of the loan), incentives to help beginning farmers stabilize new operations, and flexible repayment terms. Financial counselling services are provided to farmers who want help reviewing their options when their economic situation changes. AFSC farm loan and loan guarantee products include Beginning Farmer Loans, Vendor Mortgage Loans, Developing Farmer Loans, Alberta Disaster Assistance Loan Program, Alberta Farm Development Loans and other loan guarantees.

Operational Highlights

- AFSC Farm Lending authorized 1,683 loans totalling $161.9 million, compared to 1,702 loans for $136.2 million in 2002-03
- The Bovine Spongiform Encephalopathy (BSE) issue resulted in significantly higher volume under the Alberta Disaster Assistance Loan Program (ADALP) with a total of 499 ADALP loans authorized for $44.8 million, compared to 258 loans for $18.7 million in 2002-03
- BSE negatively impacted borrowing under Beginning Farmer Loans, with the number of loans decreasing by about 7% to 697 loans for a total of $92.3 million, less than the target set for 1,000 loans for $140 million
- Developing Farmer Loans decreased to 15 loans for $3.7 million

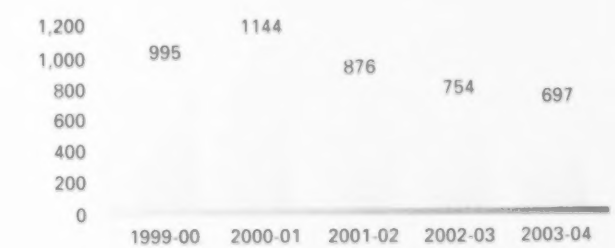
Beginning Farmer Program and Vendor Mortgage Loans

The Beginning Farmer Program (BFP) provides long-term, fixed-rate loans for new entrants into farming and those who require help to expand or diversify their operations. A Vendor Mortgage Loan allows the seller of a property/operation (usually, but not always, the buyer's parents) to finance a sale by holding the mortgage for the purchaser, with AFSC acting as the vendor's agent. Qualified buyers using the Vendor Mortgage Loan may be eligible for incentives under the BFP, up to a 1.5% interest rate reduction.

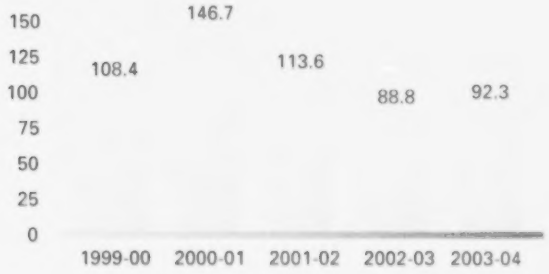
New for BFP for 2003 was an interest rate structure that more closely follows the market rate, and is based on AFSC's cost of borrowing for 5-, 10-, 15- or 20-year money. The interest rate in effect at the time of loan approval is used and that rate is fixed for the life of the loan. An optional 5-year renewable term is also available. Producers can borrow up to $500,000 per individual, or up to $2 million for four or more qualifying individuals who are farming together.

Amount advanced for BFP increased to $92.3 million, up from $88.8 million the previous year, however some farmers were not borrowing while they assessed the impact of the drought in 2002 and BSE in 2003 on their operations. AFSC authorized a total of 697 loans, a decrease of about 7% over the previous year, with an average loan amount of $132,482. Vendor Mortgage Loans were down from the previous year with 1 loan for $35,000.

Number of Beginning Farmer Loans Authorized



Amount Advanced Under Beginning Farmer Loans (millions of dollars)



Developing Farmer Program

The Developing Farmer Program (DFP) helps primary producers whose farm operation is in a more advanced stage of development through long-term loans with fixed rates of interest. A market-based rate methodology was introduced for 2003 (see details also under BFP). The DFP continued at a lower participation rate than normal as a result of some farmers deferring their expansion decisions as a result of BSE. A total of $3.7 million was authorized for 15 Developing Farmer loans.

Alberta Disaster Assistance Loan Program

The Alberta Disaster Assistance Loan Program (ADALP) helps producers recover from severe losses beyond their control. It addresses a wide range of production and income-related losses and can be used to restore working capital and financial viability to an operation through flexible terms and a low interest rate. To address increased costs of farming and the impact of the BSE in Alberta, the ADALP maximum loan amount increased from $200,000 per eligible individual to $1 million per eligible operation, and loan amortization was extended from 12 years to 20 years. The application deadline was also extended from October 31, 2003 to October 31, 2004 to give producers more time to access the program. Between April 1, 2003 and March 31, 2004, 499 loans were authorized for $44.8 million.

Alberta Farm Development Loan Program

AFSC offers the Alberta Farm Development Loan (AFDL) for loans made through commercial lenders (chartered banks, ATB Financial and most credit unions), but guaranteed by AFSC. It makes short-, medium- and long-term financing available to farmers at a reasonable cost. In 2003-04, AFSC increased the maximum loan amount from $250,000 to $1 million to reflect the increased capital requirements of Alberta farmers, and to address the impact of BSE. The maximum loan amount increase has a sunset date of October 31, 2004, after which time the maximum amount will revert back to $250,000. Guarantees totalled 471 loans for $21 million, down from last year's 661 loans for $23.4 million.

Farm Lending Performance

The majority of AFSC's loan portfolio is with beginning and developing business operations and hence, is subject to high risk. AFSC recognizes this by providing significant general allowances for doubtful accounts. AFSC has a well-managed portfolio. At year-end, allowances totalled $31 million or 3.7% of outstanding loans and guarantees, up marginally from the previous year. As well, farm accounts in arrears greater than one year was 0.7% of total loans outstanding, higher than the previous year due to widespread disasters faced by the industry.

Farm Financial Consulting

AFSC meets with farmers to offer financial counselling services to guide them through challenges facing their farms. Last year, lending staff met with 1,842 farmers to help them assess their financial options, restructure their debt and work out alternative arrangements with existing creditors. Of those, 990 were beginning farmers.

Funding: All Farm Lending programs are funded by short-term and long-term borrowing from the Province of Alberta. An agreement with the Province provides for AFSC to obtain financing from the Province on the same terms at which the Province borrows that money. AFSC's lending operations are funded by customers and by contributions from the Province.

Performance Measures

Business Goal 2:

To help industry achieve its goals, AFSC will offer unique farm financial services to assist beginning farmers to establish potentially viable farms.

Key Result

New farmers entering the industry.

Measure

Number of new farmers assisted.

Performance

- 321 new borrowers accessed financing under the Beginning Farmer Loan Program

Key Result

Beginning farmers will grow their businesses.

Measure

Number of clients that obtain additional capital to expand/diversify their operations.

Performance

- AFSC lends to a higher percentage of repeat borrowers (376) than first time clients (321)

Measure

Number of subsequent loans to existing borrowers.

Performance

- 376 subsequent loans

Measure

Number of financial consultations.

Performance

- 990 beginning farmers received financial counselling (Target: 1,650 financial consultations)

Key Result

Existing customers become commercially viable (are able to graduate to commercial lenders).

Measure

Number of early loan payouts.

Performance

- 775 loans paid out early

Business Goal 4:

To continuously research and develop our unique products to meet customers' needs.

Key Result

Product development (new products and existing products) is focused on customer and stakeholder needs.

Measure

- Number of new products implemented

Performance

- Made enhancements to existing programs in 2003-04:
  - increased ADALP maximum loan amount from $200,000 to $1 million, and increased loan amortization from 12 years to 20 years
  - extended ADALP deadline from October 31, 2003 to June 30, 2004 (further extension to October 31, 2004)
  - introduced a market-based interest rate methodology for Beginning Farmer and Developing Farmer loans
  - for Beginning Farmer Loan, increased maximum loan amount from $1 million to $2 million; introduced a 5-year renewable term; and expanded lending purposes
  - increased loan amount from $250,000 to $1 million for Alberta Farm Development Loans

  (Target: Research and develop 14 new or improved risk management/loan plans by the end of 2005/06. This target is for the whole of AFSC.)

Commercial Lending

Business Profile

AFSC Commercial Lending is turning opportunity into enterprise with unique financial solutions for Alberta's small business and agribusiness owners. For companies with solid business ideas, AFSC provides financing directly or by facilitating capital sourcing through partnerships with other lenders. AFSC offers a number of financing services: Term Debt Financing, Capital Sourcing/Alliance Lending, Export Financing and Consulting Services.

Operational Highlights

- Demonstrating the role of AFSC Commercial Lending in support of rural development, a total of 293 rural businesses were assisted
- Incremental investment in rural business facilitated totalled $77.5 million
- A total of 386 businesses were assisted, with 59 (or 15%) of those being export businesses
- The total incremental investment facilitated by AFSC Commercial in Alberta was $112.9 million with AFSC contributing only $48.7 million in direct lending while facilitating $64.2 million from external alliance partner and investor funds, thus meeting the government objective of fiscal responsibility

AFSC Commercial Lending

With our thorough understanding of business development, AFSC Commercial Lending supports entrepreneurs in Alberta's small business and agri-industry sectors through an innovative approach to business financing.

As a result of a corporate reorganization, AFSC Commercial and AFSC Farm Lending activities were combined into one Lending Division. This was done to provide better service to AFSC's rural customers through enhanced synergies between all of AFSC's professional lending staff. It is believed that this move will provide increased access to AFSC lending products and services for business owners.

Commercial services are now available through sixteen locations – five more than in 2003 – demonstrating AFSC's continued efforts to deliver services at a grassroots level.

In addition, AFSC lending staff regularly visits communities around the province to allow small business and agribusiness owners direct access to AFSC's commercial lending expertise. Over 100 Alberta communities were visited in 2003-04.

AFSC's expertise is well known in the value-added agriculture and food processing sectors, and $26.5 million – or 23.5% of total investment – is in this sector. The agri-industry continues to be a focus of AFSC as indicated by enhanced loans designed to respond to direct market needs. To this end, two new products were introduced in 2003-04. The Beef Marketing and Development Loan Program supports the diversification of Alberta's value-added beef processing industry, while the Agrivalue Processing Loan Program assists clients of the Food Processing Development Center at Leduc.

A strong rural economy is key not only to the agriculture industry, but also to the growth and strength of our province. Additional strategic partnerships were sought during the year to increase our presence in rural Alberta. New financial partners and alliance arrangements were formalized with Export Development Canada and Community Futures Development Corporations of Alberta in order to bring enhanced AFSC services to exporters and rural-based businesses in Alberta. Of all businesses helped by AFSC, rural businesses accounted for 75.9% – an example of our continuing commitment to ensuring businesses in rural locations continue to have access to the capital they need to grow their operations.

While overall dollar investment facilitated was lower this year, the number of businesses assisted totalled 386 or 13.5% over target, indicating that AFSC continues to assist Alberta businesses in terms of the number of projects supported, regardless of size.

Following the lead of Alberta's entrepreneurs, AFSC Commercial Lending continually looks at new and innovative ways to do business. Whether it's introducing new financial products, enhancing business development services, building more strategic alliances or delivering services more effectively, AFSC's goal is to support and strengthen Alberta's business community. AFSC provides products not normally provided by other financial institutions, so our important services supplement other financial options available to Alberta-based enterprises to continue to grow this important sector of Alberta's economy.

Funding: Commercial Lending programs are funded by short-term and long-term borrowing from the Province of Alberta. An agreement with the Province provides for AFSC to obtain financing from the Province on the same terms at which the Province borrows that money. AFSC's lending operations are funded by customers and by contributions from the Province.

Performance Measures

Business Goal 1:

AFSC will encourage the growth and development of Alberta's business economy through the use of commercial financial services and leveraging AFSC funds.

Key Result

Increased investment in value-added agriculture and small business.

Measure

Total dollars invested in value-added production.

Performance

- $26.5 million invested in value-added production. Total dollars invested in value-added production was well below the targeted level of $81 million. This is due in part to a narrowing of the definition of "value-added production". Had the same definition been used as was used in establishing the target, the result would have been $36.9 million. The main factor in the below target result was AFSC's involvement in fewer major agribusiness projects during the year than expected. The delays in major value-added projects may have been caused by uncertainties surrounding the BSE issue (Target: $81 million)

Measure

Total number of businesses assisted.

Performance

- 386 businesses assisted (Target: 340 businesses)

Measure

Total dollars invested in Alberta businesses.

Performance

- $112.9 million investment (facilitated by AFSC) in Alberta businesses was below the target of $146.3 million. As mentioned in a prior measure, this is due in part to AFSC's involvement in fewer major value-added projects than anticipated (Target: $146.3 million)

Key Result

Increased investment in value-added diversification to support Primary Production. Increased investment in rural and agricultural businesses.

Measure

Number of agribusinesses assisted.

Performance

- 77 agribusinesses assisted
  (Target: 74 agribusinesses)

Measure

Number of rural businesses assisted.

Performance

- 293 rural businesses assisted
  (Target: 239 rural businesses)

Measure

Investment in rural business

Performance

- $77.5 million invested in rural businesses. Investment in rural business may have been below the target of $86.2 million due in part to Alberta's economic situation being under stress due to BSE, drought and a reduced capacity of businesses to invest for expansion
  (Target: $86.2 million)

Key Result

World Scale Competitive ability.

Measure

Number of businesses assisted that successfully export.

Performance

- 59 businesses assisted that export
  (Target: 44 businesses that successfully export)

Key Result

Increased sustainable employment.

Measure

Number of full time equivalent positions created or preserved.

Performance

- 3,237 full time equivalent positions created or preserved
  (Target: 2,598 positions)

Business Goal 4:

To continuously research and develop our unique products to meet customers' needs.

Key Result

Product development (new products and existing products) is focused on customer and stakeholder needs.

Measure

- Number of new products implemented

Performance

- Implemented Beef Marketing and Development Loan Program to support diversification of Alberta's value added beef processing industry
- Implemented Agrivalue Processing Loan Program to assist clients in the food processing industry
  (Target: Research and develop 14 new or improved risk management/loan plans by the end of 2005/06. This target is for the whole of AFSC.)

CORPORATE

AFSC is proud of its strong record when it comes to employee and customer satisfaction. AFSC took several actions in 2003-04 to review and enhance customer service delivery, and to maintain an efficient and effective work force.

Staff Satisfaction

AFSC is committed to ensuring that staff have the knowledge, skills and abilities to accomplish current and future business plan goals. A successful business needs employees that feel satisfied with their work and valued by their employer.

Business Goal 7:

To manage AFSC so it is effective, efficient and innovative.

Key Result

AFSC employees have a high degree of job satisfaction.

Measure

Satisfaction rate of AFSC employees as measured by staff survey.

Performance

- Employee satisfaction was 91%, higher than the previous year's 85.9%
  (Target: 85% satisfaction rate among AFSC employees.)

Customer Satisfaction

In our efforts to provide unique financial services, AFSC conducts an annual survey of each of its core business area customers. We understand that regular feedback from our customer is key to respond to our customers' needs. Survey results enable us to improve our services as well as direct us in our future research and development activities.

Even though this was a difficult year for Alberta's agricultural community and a number of new products were introduced, overall satisfaction levels with AFSC continues to closely meet or exceed the 80% target for customer satisfaction. Survey results suggested that AFSC customers are satisfied with service delivery and that our products and services are meeting their needs.

Business Goal 5:

To continuously improve service delivery to achieve high levels of customer satisfaction.

Key Result

Customers are satisfied.

Measure

Customer satisfaction.

Performance

Customers satisfaction with service delivery for each core area:

- Insurance customers: 76%
- FIDP customers: 76%
- Farm Lending customers: 87%
- Commercial customers: 89%
- Overall customer satisfaction with AFSC's service delivery was 81%
  (Target: 80% customer satisfaction based on survey)

Flexible Service Delivery

With a growing familiarity and acceptance of e-business, AFSC is committed to introducing new e-business channels – such as telephone and Internet delivery – to provide more flexible service options for our customers. AFSC experiences a high level of customer satisfaction with current face-to-face interactions, and some customers place a high value on continuing the personal relationship they share with AFSC office staff. Others are looking for technology-based delivery systems that can provide services beyond the boundaries of time and geography. Our goal is to provide choice for our customers.

This past year, AFSC spent considerable resources on researching the needs of our customers and stakeholders in developing a vision for e-business transactions of the future. We are building our e-business strategies to balance customer service and administrative excellence, and look forward to giving our customers – many of who work in a 24/7 environment – enhanced ways to access AFSC products and services.

Very popular with AFSC customers is the ability to access the necessary forms for FIDP and the new CAIS program online. With 24 hour access to the website, customers are able to download the forms they need when they need them. AFSC's website, **www.AFSC.ca** launched May 2002, will continue to be an integral part of our e-business strategy. Traffic volumes to our site continue to increase with over 170,000 visits last year.

Business Goal 5:

To continuously improve service delivery to achieve high levels of customer satisfaction.

Key Result

Flexible service delivery.

Measure

Number of customer contacts (by AFSC and vice versa) by e-mail and Internet.

Performance

- With the introduction of an integrated system for both internal and external email, we are unable to track a number of customer contacts
  (Target: In 2002-03, the baseline year, 2,334 Internet e-mails were received and 780 Internet e-mails sent for FIDP and Farm Lending.)

Marketing Our Expertise

AFSC is being recognized as a world leader in the use of the latest technology in developing new options and enhancing existing insurance products for the management of agricultural risk. Governments in many different countries – like Chile, India and even Turkey – and international organizations such as the World Bank have sought AFSC to gain access to its expertise in the field of crop insurance. We provided our expertise of successfully transforming academic concepts into practical programs in agricultural insurance and risk management to a number of organizations.

The following activities have been undertaken to generate revenue to help offset the cost of delivering programs:

- Completed three-year contract for consulting services to help Chile develop a crop insurance program
- Signed an agreement to help the Yukon Territory evaluate their insurance program
- Negotiating a consulting arrangement with the Ukraine
- Final negotiations prepared for assisting Turkey and Malta to establish a crop insurance program
- Began discussions with the World Bank to help India develop agricultural risk management programs

Business Goal 6:

To improve cost efficiency and Grow Alberta, AFSC will market its services to other jurisdictions in Alberta, Canada and internationally.

Key Result

Overhead for services provided to other jurisdictions is recovered.

Measure

$ of net overhead recovery.

Performance

- $305,000 in overhead recovered

Managing our staff resources

AFSC staff, like in many other organizations, is maturing and younger staff needs to be provided with opportunities for the future. During the past year, AFSC partnered with Athabasca University to create a Management Development Certification Program for AFSC staff. This unique learning format allows staff to access degree-level management courses either online or through correspondence. This is particularly important as many of our staff are located in rural Alberta to enable AFSC to provide superior service to our customers, and as a result do not live close to a college or university.

During this past year, AFSC also worked with Dale Carnegie Training to develop in-house Leadership and Management training courses. These programs focus on initiatives such as developing key traits and applying behaviors that turn managers into leaders; improved skills for coaching teams; and developing and encouraging innovation in an organization.

AFSC insurance programs have undergone significant transformations over the past few years in order to better serve our customers. To further improve staff skills, AFSC developed an in-house certification program on crop insurance that allows employees to challenge themselves. This 'certification' program allows AFSC to custom-design enhanced staff training initiatives in the future, resulting in an increased level of customer service.

Other on-going AFSC training initiatives include programs such as Supervisory Development, Dealing with Stress and Effective Presentations.

Business Goal 7:

To manage AFSC so it is effective, efficient and innovative.

Key Result

AFSC programs are delivered effectively.

Measure

Core program objectives are met.

Performance

- Farm Lending: 90% of customers agreed that the loan they received from AFSC helped improve or stabilize their farm operations
- Commercial Lending: 88% of customers agreed that commercial loans enabled them to access the capital they needed; 80% agreed that there have been positive benefits to their community as a result of the financial services received
- Crop Insurance: 68% of customers agreed that AFSC provides insurance products that cover the risks on their farm; when asked about specific risks (program objectives):
  - 87% agreed that crop insurance covers for loss of production on their farm (which 96% indicated was very important or somewhat important);
  - 77% agreed that crop insurance helped them withstand economic or price instability (which 90% indicated was very important or somewhat important); and
  - 81% agreed that crop insurance helped them overcome disastrous agricultural situations (which 95% indicated was very important or somewhat important)
- FIDP: 76% of customers agreed that the FIDP payment provided them with stability or helped them overcome disaster. (This figure does not differentiate the 84% who received payment from the 13% of people surveyed who did not receive a payment.)
  (Target: Program evaluations indicate that 90% of program objectives are met, and that customer satisfaction is maintained at 80%.)

Key Result

AFSC programs are delivered efficiently.

Measure

Crop Insurance administration cost to gross premiums and indemnities vs. same ratio for other jurisdictions.

Performance

- Administration cost to gross premium and indemnity ratio was 3%, well within 10% of other organizations offering similar volumes and products in Canada (Target: Crop Insurance administration cost to gross premiums and indemnities ratio vs. other jurisdictions will be within 10% of the best in Canada for government organizations.)

Measure

Farm lending assets per farm lending employee vs. same ratio for other lenders.

Performance

- Asset/employee for farm lending was $5.17 million per employee in 2003, compared to the Canadian Industry average of $5.28 million per employee (Target: Farm lending assets per farm lending employee vs. other lenders will be within 10% of the best in Canada for comparable organizations.)

Measure

Incremental investment facilitated per commercial Account Manager.

Performance

- $3.7 million in incremental investment facilitated per Account Manager

Measure

FIDP administration cost to claim ratio vs. same ratio for other jurisdictions.

Performance

- Administration cost to claim ratio for FIDP was within 10% of other jurisdictions of similar size in Canada (Target: FIDP administration cost to claim ratio vs. other jurisdictions will be within 10% of the best in Canada for government organizations for similar claim volumes.)

Key Result

AFSC is administered efficiently.

Measure

Management to staff ratio vs. provincial government average.

Performance

- Management/staff ratio was 1:21, exceeding the provincial average of approximately 1:8 (Target: Management to staff ratio will be 10% better than the Alberta average for government departments.)

Summary of Insurance

Summary for Crop Insurance by Crop Year[1]

Crop Year	Number of Contracts	Acres ,000	Risk $,000	Premium $,000	Contracts with Losses	Loss $,000	Loss/ Premium Percent
1999	14,786	9,449	1,013,983	103,915	3,160	28,957	27.9
2000	14,905	10,061	919,445	97,071	6,443	91,492	94.3
2001	15,206	10,997	1,252,078	133,607	7,798	204,586	153.1
2002	15,078	11,100	1,489,970	155,968	12,164	662,578	424.8
2003	16,826	12,232	1,677,802	207,108	5,976	90,538	43.7

[1] Totals are for Crop Insurance, Processing Vegetables, Honey, Corn Heat Units, Second Year Fescue(2000-2001) and Cereal/Silage(2002-2003)

Summary for Hail Endorsement by Crop Year[2]

Crop Year	Number of Contracts	Acres ,000	Risk $,000	Premium $,000	Contracts with Losses	Loss $,000	Loss/ Premium Percent
1999	11,145	7,106	797,952	37,008	2,036	22,799	61.6
2000	12,115	8,235	784,280	33,240	3,875	60,715	182.7
2001	12,688	9,278	1,096,090	46,069	2,485	39,080	84.8
2002	12,064	8,851	1,253,458	51,483	1,473	33,662	65.4
2003	12,825	9,342	1,356,257	66,012	2,740	52,246	79.1

[2] Totals are for Crop Insurance, Processing Vegetables, Honey, Corn Heat Units, Second Year Fescue(2000-2001) and Cereal/Silage(2002-2003)

Summary for Forage (Hay) Insurance by Crop Year

Crop Year	Number of Contracts	Acres ,000	Risk $,000	Premium $,000	Contracts with Losses	Loss $,000	Loss/ Premium Percent
1999[1]	2,377	2,312	41,532	8,774	989	6,229	71.0
2000	1,574	350	19,521	4,324	752	4,950	114.5
2001	1,949	453	30,444	6,768	1,575	14,413	212.9
2002	2,977	658	54,116	11,504	2,459	35,771	310.9
2003	4,618	951	88,299	22,650	1,523	11,593	51.2

[1] 1999 contains Hay and Pasture contracts

Summary for Satellite Insurance (Pasture) by Crop Year

Crop Year	Number of Contracts	Acres ,000	Risk $,000	Premium $,000	Contracts with Losses	Loss $,000	Loss/ Premium Percent
2001[1]	677	2,056	18,687	3,446	677	16,097	467.1
2002	1,989	5,591	59,016	11,220	1,700	29,775	265.4
2003	1,980	5,634	65,737	13,626	67	168	1.2

[1] Pilot project for 2001

Summary for Lack of Moisture Insurance (Pasture) by Crop Year

Crop Year	Number of Contracts	Acres ,000	Risk $,000	Premium $,000	Number of Losses	Loss $,000	Loss/ Premium Percent
2002	3,882	3,464	44,696	5,581	2,891	23,733	425.2
2003	7,044	5,613	122,771	15,921	2,032	5,024	31.6

Summary for Hail Insurance by Crop Year

Crop Year	Number of Contracts	Acres ,000	Risk $,000	Premium $,000	Number of Losses	Loss $,000	Loss/ Premium Percent
1999	8,129	4,415	424,822	19,832	1,278	11,014	55.5
2000	7,673	4,264	410,067	18,188	2,309	32,314	177.7
2001	6,244	3,406	332,676	15,401	1,002	11,182	72.6
2002	5,105	3,051	295,411	13,434	797	10,219	76.1
2003	6,109	3,808	375,134	17,138	1,063	12,319	71.9

Waterfowl/Wildlife Compensation Program by Crop Year

Crop Year	Wildlife Number of Losses	Wildlife Loss $,000	Waterfowl Number of Losses	Waterfowl Loss $,000	Total Number of Losses	Loss $,000
1999	156	640	389	1,492	545	2,132
2000	430	3,113	582	3,045	1,012	6,158
2001	420	1,564	167	1,035	587	2,599
2002	453	1,891	303	1,731	756	3,622
2003	463	1,510	125	543	588	2,053

Summary for Spring Price Endorsement by Crop Year[5]

Crop Year	Number of Contracts	Acres ,000	Risk $,000	Premium $,000	Number of Losses	Loss $,000	Loss/ Premium Percent
2003	5,582	4,094	582,587	40,048	4,957	79,203	197.8

[5] includes Crop Insurance & Cereal/Silage

Summary of Lending

	Authorizations 2003 – 2004		Authorizations 2002 – 2003		Accumulated Authorizations June '72 – Mar 2004		Active and Outstanding Mar 31, 2004	
	No.	$M.	No.	$M.	No.	$M.	No.	$M.
Farm Direct Loans								
Beginning Farmer	697	92.3	754	88.8	21,222	2,307.2	8,695	703.5
Developing Farmer	15	3.7	26	4.7	588	61.5	162	23.8
Disaster Assistance	499	44.8	258	18.7	2,923	207.6	1,342	95.9
Other	0	0.0	0	0.0	5,289	278.9	155	2.7
Subtotal	**1,211**	**140.8**	**1,038**	**112.2**	**30,022**	**2,855.2**	**10,354**	**825.9**
Farm Guarantees								
Alberta Farm Development Loans	471	21.0	661	23.4	168,825	2,267.1	3,252	75.4
Other Guaranteed Loans	1	0.1	3	0.6	2,489	115.9	66	5.1
Subtotal	**472**	**21.1**	**664**	**24.0**	**171,314**	**2,383.0**	**3,318**	**80.5**
Total Farm	**1,683**	**161.9**	**1,702**	**136.2**	**201,336**	**5,238.2**	**13,672**	**906.4**
Commercial Loans								
Direct Loans	265	48.7	264	51.4	10,392	1,284.2	1,111	172.5
Specific Guaranteed Loans	9	1.2	9	2.0	528	209.2	23	4.2
Alliance Lending	42	64.2	36	81.9	350	539.0	48	51.7
Total Commercial	**316**	**114.1**	**309**	**135.3**	**11,270**	**2,032.4**	**1,182**	**228.4**
Corporate Grand Total	**1,999**	**276.0**	**2,011**	**271.5**	**212,606**	**7,270.6**	**14,854**	**1,134.8**

Management's Responsibility for Financial Reporting

The preparation of these financial statements, management's discussion and analysis and all other financial information relating to the Corporation contained in this annual report is the responsibility of management. The financial statements have been prepared in conformity with Canadian generally accepted accounting principles, using methods appropriate for the industry in which the Corporation operates and necessarily include some amounts that are based on informed judgments and best estimates of management. The financial information contained elsewhere in this annual report is consistent with that in the financial statements.

Management is responsible for maintaining a system of internal controls designed to provide reasonable assurance as to the reliability of financial information and to ensure corporate assets are safeguarded and liabilities are recognized. These control systems are subject to periodic review by the Corporation's internal auditors.

The Alberta Auditor General is responsible to express a professional opinion on these financial statements.

The Board of Directors Audit Committee, composed of non-management directors, oversees management's responsibilities for financial reporting. The Audit Committee meets regularly with management, the internal auditors and the independent auditors to discuss auditing and financial matters, gain assurance that management is carrying out its responsibilities and to review and approve the financial statements. The auditors have full and free access to the Audit Committee.

Alan Steel
President and Managing Director

R. (Krish) Krishnaswamy, C.M.A.
Vice-President, Finance

AUDITOR'S REPORT

Alberta Legislature
Office of the Auditor General

To the Board of Directors of the Agriculture Financial Services Corporation

I have audited the balance sheet of the Agriculture Financial Services Corporation as at March 31, 2004 and the statements of revenue, expense and surplus, and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J. Dunn

Fred Dunn
FCA
Auditor General

Edmonton, Alberta
May 26, 2004

Balance Sheet

As at March 31, 2004
(in thousands)

	2004	2003
Assets		
Cash	$ 61,775	$ 117,046
Accounts receivable (Note 4)	7,876	17,353
Due from Province of Alberta	46,242	50,946
Due from Government of Canada	208,634	79,381
Due from Crop Reinsurance Fund of Canada for Alberta	-	15,977
Loans receivable (Note 5)	988,182	966,121
Investments (Note 6)	100,297	104,815
Property, plant and equipment (Note 7)	23,174	18,510
	$ 1,436,180	$ 1,370,149
Liabilities and Surplus		
Accounts payable and accrued liabilities	$ 24,950	$ 27,159
Estimated indemnities payable (Note 8)	263,024	164,247
Advance from Province of Alberta	-	110,000
Due to Crop Reinsurance Fund of Canada for Alberta	4,740	-
Allowance for losses on loan guarantees (Note 14)	1,263	1,492
Notes payable (Note 9)	924,652	903,213
Deferred revenue (Note 10)	19,018	31,617
	1,237,647	1,237,728
Surplus	198,533	132,421
	$ 1,436,180	$ 1,370,149

Contingencies and commitments (Note 14)

The accompanying notes and schedules are part of these financial statements.

Approved by the Board:

Bern Kotelko, Chair of Audit Committee

Bob Splane, Chairman

Statement of Revenue, Expense and Surplus

For the Year Ended March 31, 2004
(in thousands)

	Budget (Note 3(a))	2004 Actual (Schedule 1)	2003 Actual
Revenue:			
Premiums from insured persons, net	$ 148,794	$ 131,663	$ 91,314
Interest	83,521	75,424	72,455
Contribution from Province of Alberta, net	224,573	278,619	192,999
Contribution from Government of Canada, net	26,918	295,291	147,749
Investment income	5,794	10,970	28,161
Fees and other income	4,428	3,067	3,624
	494,028	795,034	536,302
Expense:			
Indemnities, net	435,761	608,849	888,416
Administration, Schedule 2	56,108	52,341	47,544
Interest	55,853	47,212	47,197
Farm loan incentives	7,041	5,728	6,401
Provision for doubtful accounts and for losses (Note 13)	5,626	5,070	3,504
Adjusting, net	6,576	8,060	2,771
Selling commissions	2,112	1,662	1,317
	569,077	728,922	997,150
Surplus (deficiency) of revenue over expense before recoveries	(75,049)	66,112	(460,848)
Net recoveries	54,654	-	171,632
Surplus (deficit) for the year	$ (20,395)	66,112	(289,216)
Surplus at beginning of year		132,421	421,637
Surplus at end of year		$ 198,533	$ 132,421

The accompanying notes and schedules are part of these financial statements.

Statement of Cash Flows

For the Year Ended March 31, 2004
(in thousands)

	2004	2003
Operating activities:		
Surplus (deficit) for the year	$ 66,112	$ (289,216)
Changes not affecting cash	3,278	(5,138)
Changes in assets and liabilities relating to operations	(121,954)	133,132
Net cash utilized by operating activities[1]	(52,564)	(161,222)
Investing activities:		
Proceeds from repayments of loans receivable and sale of properties	159,862	153,438
Loan disbursements	(184,923)	(163,658)
Purchase of investments	(218,446)	(531,521)
Proceeds on disposal of investments	224,412	804,847
Purchase of property, plant and equipment	(8,549)	(4,577)
Proceeds on disposal of property, plant and equipment	50	106
Net cash (utilized) provided by investing activities	(27,594)	258,635
Financing activities:		
Borrowing from the Province of Alberta	1,103,226	875,288
Repayment of borrowing from the Province of Alberta	(1,081,805)	(873,008)
Government of Canada funding for property, plant and equipment	2,094	413
Province of Alberta funding for property, plant and equipment	1,372	553
Net cash provided by financing activities	24,887	3,246
Net (decrease) increase in cash from operating, investing and financing activities	(55,271)	100,659
Cash at beginning of year	117,046	16,387
Cash at end of year	$ 61,775	$ 117,046

(1) Net cash provided by operating activities includes $47,075,000 (2003 $47,436,000) of interest paid.

The accompanying notes and schedules are part of these financial statements.

Notes to the Financial Statements

March 31, 2004

Note 1
Authority and Purpose

The Agriculture Financial Services Corporation (the "Corporation") operates under the authority of the Agriculture Financial Services Act, Chapter A-12 RSA 2000.

The Corporation provides lending and insurance services and compensation programs. Its core programs and services include loans to beginning farmers, commercial lending, crop insurance, hail insurance and agricultural income stabilization payments. It also delivers other programs and services including loans to developing farmers, disaster loans, loan guarantees, and business planning/counseling.

Note 2
Significant Accounting Policies and Reporting Practices

These financial statements are prepared in accordance with Canadian generally accepted accounting principles.

(a) **Cash**

Cash consists of a deposit in the Consolidated Cash Investment Trust Fund which is managed by the Province of Alberta to provide competitive interest income while maintaining maximum security and liquidity of depositors' capital.

(b) **Investments**

Investments are carried at cost or amortized cost unless there is an other than temporary decline in the value of the investments, then the investments are written down to recognize the loss. Premiums and discounts on investments are amortized to investment income using the straight-line method over the period to maturity of the related investment. Gains and losses realized on disposal of investments are included in investment income.

(c) **Property, Plant and Equipment**

Property, plant and equipment are carried at cost less accumulated amortization. Amortization is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Building	25 years
Software development costs	10 years
Equipment and furniture	10 years
Vehicles	5 years
Computer equipment	5 years

(d) **Notes Payable**

Notes payable are carried at amortized cost. Premiums and discounts on notes payable are amortized to interest expense using the effective yield method over the period to maturity.

(e) **Fair Value of Financial Instruments**

Because of the relatively short period to maturity, short-term financial instruments are valued at cost and adjusted for any applicable allowance for doubtful accounts. This is considered to be equivalent to fair value and applies to Cash, Accounts receivable, Due from Province of Alberta, Due from Government of Canada, Due from Crop Reinsurance Fund of Canada for Alberta, Accounts payable and accrued liabilities, Estimated indemnities payable, Advance from Province of Alberta and Due to Crop Reinsurance Fund of Canada for Alberta. Fair values of Loans receivable, Investments and Notes payable are disclosed in their respective notes.

(f) **Reinsurance**

In accordance with the Federal/Provincial Agricultural Policy Framework Implementation Agreement, two crop reinsurance funds were established. On behalf of the Province, the Corporation administers the provincial fund called the Crop Reinsurance Fund of Alberta. Canada holds the federal fund called the Crop

Reinsurance Fund of Canada for Alberta. The Crop Reinsurance Fund of Alberta is included as part of the crop insurance surplus of the Corporation. Contributions to and withdrawals from the Funds are made in accordance with terms and conditions of the agreement (see Note 17).

Premiums from insured persons, Contributions from the Province of Alberta, Contributions from the Government of Canada, Indemnities and Adjusting are recorded net of amounts ceded to or recoverable from non-government reinsurers. Estimates of amounts recoverable from non-government reinsurers on indemnities and adjusting expenses are recorded in Accounts Receivable. Contributions for the Government of Canada are recorded net of amounts ceded to the Crop Reinsurance Fund of Canada for Alberta.

(g) Loan Discounting

Loans made under the Alberta Disaster Assistance Loan Program, Alberta Farm Income Disaster program, and amounts previously deferred under the Indexed Deferral Plan are discounted when they involve significant concessionary elements. The amounts discounted are being amortized to revenue over the lives of the concessionary terms.

(h) Revenue Recognition

Interest revenue on loans receivable is recognized on an accrual basis unless the ultimate collectibility of the loan is in doubt. When a loan is classified as impaired, interest revenue is no longer recognized. An impaired loan is a loan in which there is risk of loss to the Corporation for full and timely collection of the debt. Impairment may be due to a security deficiency, inadequate cash flow, economic factors in a specific segment of the industry or a catastrophic event.

Premiums from insured persons, including federal and provincial government contributions, are recognized as income when invoiced to producers.

Federal and provincial contributions for property, plant and equipment acquisitions are recorded as deferred revenue until that revenue is recognized on the same basis as those property, plant and equipment costs are amortized.

Loan application fees are recognized when the application is received. Loan fees are recognized when received which is after approval but prior to the time of loan disbursement. Other fees are recorded when the Corporation completes the applicable service.

(i) Pensions

The Corporation participates in multi-employer pension plans with related government entities. Pension costs included in these statements comprise the cost of employer contributions for current service of employees during the year.

(j) Provision for Losses on Loans and Guarantees

Provisions are established for specifically identified potential losses on loans and guarantees as well as for anticipated but not specifically identified losses. When a loan is identified as impaired, a specific provision is established. Specific provisions are established by reducing the recorded investment in the loan by the discounted fair value of the security and the estimated costs to collect. Specific provisions are determined in this manner because the amounts and timing of future cash flows cannot be estimated with reasonable reliability. The provision for doubtful accounts is adjusted for the change in the present value of the security held.

Note 2
Significant Accounting Policies and Reporting Practices (continued)

(j) **Provision for Losses on Loans and Guarantees (continued)**

The majority of the Corporation's loan portfolio is with beginning and developing business operations and hence, is subject to high risk. The Corporation recognizes this by providing significant general allowances for doubtful accounts. In establishing the general component of the allowance, management estimates loss percentages and applies them to loans receivable balances categorized into risk pools. Risk pools are established based on land value trends, the impact of federal and provincial government programs, international trade criteria, future commodity price trends, climatic conditions and the financial stability of the borrower.

(k) **Transactions with Related Parties**

All related party transactions have been recorded at the amount of consideration paid or received as agreed to by the related party (see Note 16).

Note 3
Financial Structure

(a) **Budget**

The Board of Directors approved the Corporation's budget in January 2003. Contributions from the Province of Alberta of $237,875,000 was authorized by the Legislative Assembly and is reflected in the Corporation's budget approved by the Board. The budgeted contribution from the Province of Alberta was adjusted by $13,302,000 for ceded reinsurance and deferred revenue.

(b) **Crop Fund Balance Restriction**

In accordance with the Federal/Provincial Agricultural Policy Framework Implementation Agreement, the crop insurance fund is restricted to being used for crop insurance purposes.

(c) **Other Revenue and Expenses**

The Other column in the Schedule of Revenue, Expense and Surplus includes the wildlife program, and consulting fees and expenses that are not attributable to any of the programs disclosed in the Schedule.

Note 4
Accounts Receivable

	2004	2003
	(in thousands)	
Premiums from insured persons:		
Crop insurance program	$ 7,803	$ 17,450
Hail insurance program	178	128
Prepaid expenses	543	385
Other	456	425
	8,980	18,388
Less allowances for doubtful accounts (Note 13)	(1,104)	(1,035)
	$ 7,876	$ 17,353

Note 5
Loans Receivable

Loans receivable are comprised of the following:

				2004	2003
		(in thousands)			
	Recorded Investment	Specific Allowance	General Allowance	Net Carrying Value	Net Carrying Value
Farm Lending	$ 837,361	$ (2,491)	$ (28,637)	$ 806,233	$ 789,466
Commercial Lending	172,861	(10,571)	(1,430)	160,860	158,301
	$ 1,010,222	$ (13,062)	$ (30,067)	967,093	947,767
Accrued interest				26,547	24,680
Accrued incentives				(2,580)	(2,672)
Loan discounts				(2,878)	(3,654)
				$ 988,182	$ 966,121

Impaired loans included in the preceding schedule:

			2004	2003
	(in thousands)			
	Recorded Investment	Specific Allowance	Net Carrying Value	Net Carrying Value
Commercial Lending	$ 22,549	$ (10,571)	$ 11,978	$ 8,563
Farm Lending	7,820	(2,491)	5,329	5,325
	$ 30,369	$ (13,062)	$ 17,307	$ 13,888

The impaired loans balance includes property held for sale which has been acquired as a result of foreclosures, quit claims and other actions. There is a specific allowance of $1,227,000 (2003 $1,409,000) on property balances outstanding of $2,372,000 (2003 $2,738,000).

Loans receivable does not include prepaid balances $12,311,000 (2003 $15,918,000) which are included in Accounts payable and accrued liabilities.

Note 5
Loans Receivable (continued)

Included in the above loans receivable balance are loans with concessionary terms which, before discounting, have principal amounts outstanding of:

	2004	2003
	(in thousands)	
Alberta Disaster Assistance Loan Program	$ 56,899	$ 15,869
Alberta Farm Income Disaster loans	33,683	40,579
Indexed Deferral Plan	1,381	3,186
	$ 91,963	$ 59,634

Loans receivable of $988,182,000 is subject to measurement uncertainty. The amount established for specific and general allowances of $43,129,000 to cover estimated losses on loans (see Note 2(j)) could change substantially in the future, if factors considered by management in establishing these estimates were to change significantly.

The approximate fair value of loans receivable at March 31, 2004 is $973,376,000 (2003 $951,297,000). Fair value is based on future cash flows discounted by rates equivalent to the market rates on loans with similar terms and credit risk.

Note 6
Investments

	2004	2003
	(in thousands)	
Bonds and debentures:		
Government of Canada, direct and guaranteed	$ 46,044	$ 19,853
Other provincial direct and guaranteed	20,405	45,058
	66,449	64,911
Corporate securities	32,759	38,305
	99,208	103,216
Accrued interest	1,089	1,599
	$ 100,297	$ 104,815

The fair value of investments at March 31, 2004 is $104,806,000 (2003 $106,801,000). Fair value is based on quoted market prices including accrued interest.

Note 7
Property, Plant and Equipment

	Cost	Accumulated Amortization	2004 Net Book Value	2003 Net Book Value
		(in thousands)		
Software development costs	$ 20,819	$ 8,746	$ 12,073	$ 11,982
Computer equipment	6,904	4,589	2,315	1,902
Building	6,299	1,288	5,011	1,803
Equipment and furniture	4,801	1,959	2,842	2,028
Vehicles	1,516	863	653	515
Land	280	-	280	280
	$ 40,619	$ 17,445	$ 23,174	$ 18,510

Software development costs include $1,872,000 (2003 $2,308,000) and building costs include $3,380,000 (2003 $55,000) of costs incurred that are not amortized because they are still in the developmental or construction stage.

Note 8
Estimated Indemnities Payable

	2004	2003
	(in thousands)	
Canadian Agricultural Income Stabilization Program	$ 241,504	$ -
Farm Income Disaster Program	16,301	131,679
Crop insurance	4,648	30,580
Wildlife compensation	505	1,960
Hail insurance	66	28
	$ 263,024	$ 164,247

Estimated indemnities payable of $241,504,000 and corresponding contributions and receivables from the Province of Alberta and the Government of Canada for the Canadian Agricultural Income Stabilization Program (CAIS) are subject to measurement uncertainty. The estimated indemnities payable and corresponding contributions for the CAIS program could change substantially in the future, if factors considered by management in establishing the estimates were to change significantly. Indemnities to be paid may be more or less than the amount recorded because the estimate is made before the majority of participants elected their coverage levels and information necessary to process a claim is received. It is also difficult to predict the estimated indemnities because of the wide variation business risks may have on individual program margins and the 2003 taxation year is the first year of this new program.

Note 9
Notes Payable

Notes payable to the Province of Alberta are comprised of the following:

Remaining Term to Maturity	Effective Interest Rate	2004	Effective Interest Rate	2003
		(in thousands)		
Within 1 year	2.14% - 6.15%	$ 123,845	2.91% - 5.41%	$ 93,195
1 to 5 years	3.64% - 5.54%	177,605	3.10% - 6.15%	228,696
6 to 10 years	5.43% - 7.64%	294,799	5.56% - 7.64%	275,556
Over 10 years	5.04% - 6.52%	315,431	5.43% - 6.52%	292,115
Accrued interest		12,972		13,651
		$ 924,652		$ 903,213

Net unamortized discounts of $3,346,000 (2003 $3,228,000) are included in the balances disclosed.

Principal repayments due in each of the next five years are as follows:

	(in thousands)
Year ending March 31, 2005	$ 181,824
2006	$ 134,804
2007	$ 130,704
2008	$ 87,629
2009	$ 59,688

The approximate fair value at March 31, 2004 is $985,299,000 (2003 $923,957,000). Fair values for notes are based on the net present value of future cash flows. Each individual cash flow payment is discounted at a rate which matches the term of the cash flow payment and is adjusted for a yield premium to reflect several factors. They include the following:

(a) a liquidity premium to reflect that there is a limited pool of these securities for trading in the market, they would be new to the market and are not direct issues of the Province, a factor to reflect the blended payment structure of the notes.

(b) a factor to reflect the blended payment structure of the notes.

Note 10
Deferred Revenue

	2004	2003
	(in thousands)	
Province of Alberta property, plant and equipment	$ 7,146	$ 7,464
Premiums from insured persons	6,094	19,398
Government of Canada property, plant and equipment	5,778	4,755
	$ 19,018	$ 31,617

Note 11
Reinsurance

In addition to the protection provided by reinsurance arrangements between the provincial and federal governments, the Corporation has obtained reinsurance from non-government sources. For Crop Insurance, the Corporation reinsured a maximum of $193,378,000 of the risk. For Hail Insurance, the Corporation reinsured a maximum of $4,177,000 of the risk.

Note 12
Pensions

The Corporation participates in the multi-employer pension plans, Management Employees Pension Plan and Public Service Pension Plan. The Corporation also participates in the multi-employer Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of $1,791,000 for the year ended March 31, 2004 (2003 $1,370,000).

At December 31, 2003, the Management Employees Pension Plan reported a deficiency of $290,014,000 (2002 deficit $301,968,000) and the Public Service Pension Plan reported an actuarial deficiency of $596,213,000 (2002 actuarial deficit $175,528,000). At December 31, 2003, the Supplementary Retirement Plan for Public Service Managers had an actuarial surplus of $9,312,000 (2002 surplus $6,472,000).

Note 13
Allowances for Doubtful Accounts and for Losses

	Accounts Receivable (Note 4)	Farm Lending Loans Receivable	Commercial Lending Loans Receivable	Loan Guarantees (Note 14)	Total
			(in thousands)		
Allowances at March 31, 2002	$ 1,092	$ 25,145	$ 12,580	$ 1,665	$ 40,482
Provision for 2002-03	(36)	3,138	575	(173)	3,504
Write-offs in 2002-03, net of recoveries	(21)	(718)	(941)	-	(1,680)
Allowances at March 31, 2003	1,035	27,565	12,214	1,492	42,306
Provision for 2003-04	84	4,305	910	(229)	5,070
Write-offs in 2003-04, net of recoveries	(15)	(742)	(1,123)	-	(1,880)
Allowances at March 31, 2004	$ 1,104	$ 31,128	$ 12,001	$ 1,263	$ 45,496

Note 14
Contingencies and Commitments

	2004	2003
	(in thousands)	
Loan guarantees	$ 38,829	$ 46,263
Less allowances for losses (Note 13)	(1,263)	(1,492)
	37,566	44,771
Legal actions	79	1,100
Total contingencies	$ 37,645	$ 45,871

The majority of loan guarantees relate to loans made by other financial institutions with repayment guaranteed by the Corporation under the Alberta Farm Development Loans program. The loans outstanding at March 31, 2004 made by other financial institutions were $71,961,000 (2003 $83,829,000). Loan guarantees under the Alberta Farm Development Loans program include the maximum liability on loan guarantees of $29,200,000 (2003 $33,125,000) to which the Corporation is exposed under the terms of the agreements with the financial institutions subject to recoveries on underlying securities.

The outcome of the legal actions is not determinable at this time.

	2004	2003
	(in thousands)	
Approved, undisbursed loans	$ 40,606	$ 34,390
Estimated farm loan incentives	16,205	17,774
Building costs	2,521	-
Operating leases	1,961	3,230
Reinsurance	-	31,801
Total commitments	$ 61,293	$ 87,195

The operating lease commitments are for accommodations and vehicles with terms up to five years.

Note 15
Credit Risk and Interest Risk

(a) Credit Risk

Credit risk is the risk that a debtor may not pay amounts owing thus resulting in a loss.

The following table provides a breakdown of the loan receivables by sector. This analysis provides an indication of the concentration of credit risk on the loan portfolio. Significant information is provided throughout these statements to disclose other concentrations of credit risk.

	2004	2003
	(in thousands)	
Loans receivable by sector:		
Grain	$ 423,167	$ 422,274
Beef	312,111	279,996
Accommodation and food services	34,708	33,000
Hog	33,063	32,780
Trade - retail and wholesale	27,141	26,201
Manufacturing	18,807	16,904
Processors/Feedmills	10,108	12,815
Other	172,206	181,930
	1,031,311	1,005,900
Allowance	(43,129)	(39,779)
	$ 988,182	$ 966,121

Note 15
Credit Risk and Interest Risk (continued)

(b) Interest Risk

Interest rate risk is the impact future changes of interest rates have on cash flows and fair value of assets and liabilities. The following provides a breakdown of the gaps between the notes payable and the loan portfolio. Because there are no early repayment penalties on most loan programs, the gap analysis includes an adjustment for expected repayments based on historical patterns.

	Term to Maturity[1]				Not[2] Interest Rate Sensitive	2004	2003
	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years		Total	Total
	(in thousands)						
Farm loans	$ 72,624	$ 246,421	$ 262,291	$ 250,934	$ (4,875)	$ 827,395	$ 809,903
Yield[3]	6.97%	7.08%	7.08%	6.93%	-	7.05%	7.22%
Commercial loans	$ 59,994	$ 98,782	$ 1,302	$ -	$ 709	$ 160,787	$ 156,218
Yield[3]	8.08%	8.48%	7.29%	-	-	8.28%	8.68%
Total	$ 132,618	$ 345,203	$ 263,593	$ 250,934	$ (4,166)	$ 988,182	$ 966,121
Yield[3]	7.12%	7.15%	7.08%	6.93%	-	7.11%	7.30%
Notes payable Province of Alberta	$ 181,824	$ 412,825	$ 221,498	$ 98,917	$ 9,588	$ 924,652	$ 903,213
Yield[3]	5.16%	5.68%	5.84%	5.53%	-	5.58%	5.69%
Net gap before prepayment adjustment	$ (49,206)	$ (67,622)	$ 42,095	$ 152,017	$ (13,754)	$ 63,530	$ 62,908
Estimated prepayment	49,930	71,023	(24,493)	(96,460)	-	-	-
Net gap	$ 724	$ 3,401	$ 17,602	$ 55,557	$ (13,754)	$ 63,530	$ 62,908

The gap positions represent the mismatching of the financing with the loan portfolio at March 31, 2004. The gaps provide an indication of the potential risks to the Corporation if interest rates change. At March 31, 2004 an immediate and sustained increase in interest rates of 1% would increase net interest paid by $162,000 and would increase the net fair market value of loans and financing for the next fiscal year by $15,734,000 based on the net gap before prepayment adjustment. A corresponding decrease in interest rates would decrease the net interest paid and would decrease the net fair market value of loans and financing by a similar amount over the same period.

This gap analysis does not include the investment portfolio, which is disclosed separately below. Investments are not included because investments relate to insurance program cash flows which are managed separately from lending program cash flows.

Note 15
Credit Risk and Interest Risk (continued)

(b) Interest Risk (continued)

The following provides a breakdown of the investment portfolio by term to maturity.

	Term to Maturity[1]				2004	2003
	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years	Total	Total
			(in thousands)			
Bonds and debentures	$ -	$ 36,198	$ 19,912	$ 10,339	$ 66,449	$ 64,911
Yield[3]	-	4.18%	4.78%	5.85%	4.62%	5.19%
Corporate Securities	-	32,759	-	-	32,759	38,305
Yield[3]	-	5.21%	-	-	5.21%	5.27%
	-	68,957	19,912	10,339	99,208	103,216
Accrued interest	-	754	181	154	1,089	1,599
	$ -	$ 69,711	$ 20,093	$ 10,493	$ 100,297	$ 104,815

(1) For loans, term to maturity reflects the period of time until an interest rate renegotiation date or the maturity date of the loan. For notes payable, term to maturity reflects the contractual maturity date of the debt. The interest rates are fixed until maturity. Repayment is either by semi-annual or annual installments of principal. For investments, term to maturity classifications are based on contractual maturity date of the security.

(2) Includes general provisions, accrued interest and unamortized loan discount.

(3) For notes payable and investments, yield represents the rate which discounts future cash receipts to the carrying amount. For loans, yield represents the rate which discounts the stream of future payments from the reporting date to the next interest rate renegotiation date or the rate which discounts future cash receipts to the carrying amount.

Note 16
Related Party Transactions

Sufficient information is provided throughout these statements to disclose significant related party transactions the Corporation entered into, except for the following:

	2004	2003
	(in thousands)	
Interest expense - Province of Alberta	$ 47,212	$ 47,196
Administration expense - Province of Alberta	1,964	2,368

Note 17
Crop Reinsurance Funds

The contributions, withdrawals and accumulated deficit positions of the Crop Reinsurance Fund of Alberta and Crop Reinsurance Fund of Alberta for Canada are as follows (see Note 2(f)):

	Crop Reinsurance Fund of Alberta		Crop Reinsurance Fund of Canada for Alberta	
	2004	2003	2004	2003
		(in thousands)		
Opening (deficit) surplus	$ (44,889)	$ 53,518	$ (94,407)	$ 77,225
Contributions	24,070	-	32,566	-
	(20,819)	53,518	(61,841)	77,225
Withdrawals	-	(98,407)	-	(171,632)
Closing deficit	$ (20,819)	$ (44,889)	$ (61,841)	$ (94,407)

Note 18
Subsequent Event

The Canadian Agricultural Income Stabilization Program is administered in accordance with the Federal/Provincial Agricultural Policy Framework Implementation Agreement. Amendments to the agreement are implemented from time to time in support of program evolution and delivery. A third amendment was implemented on May 21, 2004 to enhance the program for the 2003 taxation year to provide coverage for negative margins, increase payment caps for claims and modify the deposit requirements. As of March 31, 2004, Alberta had committed to the anticipated amendment, however the financial impact of the amendment will be reflected in the next fiscal year, the period in which the amendment to the agreement came into force. The estimated cost of this amendment is $120,000,000. The cost and the corresponding contributions from the Province of Alberta and the Government of Canada are subject to measurement uncertainty (See Note 8).

Note 19
Comparative Figures

The 2003 figures have been reclassified where necessary to conform to 2004 presentation.

Schedule 1

Schedule of Revenue, Expense and Surplus

For the Year Ended March 31, 2004
(in thousands)

	2004 Canadian Agricultural Income Stabilization	2003 Canadian Agricultural Income Stabilization	2004 Crop Insurance	2003 Crop Insurance	2004 Farm Income Disaster	2003 Farm Income Disaster	2004 Farm Lending
Revenue:							
Premiums from insured persons, net	$ -	$ -	$ 120,085[1]	$ 82,289[1]	$ -	$ -	$ -
Interest	-	-	422	222	18	20	59,219
Contribution from Province of Alberta, net	105,501	-	106,418[2]	72,675[2]	54,784	104,415	3,855
Contribution from Government of Canada, net	158,251	-	76,181[3]	69,072[3]	59,277	76,252	-
Investment income	-	-	6,988	23,178	259	556	167
Fees and other income	-	-	73	67	-	42	1,682
	263,752	-	310,167	247,503	114,338	181,285	64,923
Expense:							
Indemnities, net	261,794	-	222,168	695,773	109,520	176,653	-
Administration, Schedule 2	1,958	-	20,413	19,857	4,818	4,632	12,799
Interest	-	-	-	-	-	-	42,343
Farm loan incentives	-	-	-	-	-	-	5,728
Provision for doubtful accounts and for losses	-	-	88	(16)	-	-	3,823
Adjusting, net	-	-	7,447	2,380	-	-	-
Selling commissions	-	-	-	-	-	-	-
	263,752	-	250,116	717,994	114,338	181,285	64,693
Surplus (deficiency) of revenue over expense before recoveries	-	-	60,051	(470,491)	-	-	230
Recoverable from Government of Canada (Note 17)	-	-	-	171,632	-	-	-
Recoverable by Province of Alberta	-	-	-	-	-	-	-
	-	-	-	171,632	-	-	-
Surplus (deficit) for the year	-	-	60,051	(298,859)	-	-	230
Surplus at beginning of year	-	-	30,513	329,372	-	-	1,039
Surplus at end of year	$ -	$ -	$ 90,564	$ 30,513	$ -	$ -	$ 1,269

(1) Premiums from insured persons are net of ceded to reinsurance of $13,978,000 (2003 $10,547,000).

(2) Contribution from Province of Alberta is net of ceded to reinsurance of $10,189,000 (2003 $8,657,000) and includes contributions for administration and adjusting costs of $12,203,000 (2003 $11,617,000) resulting in a premium contribution of $104,404,000 (2003 $69,715,000).

(3) Contribution from Canada is net of ceded to reinsurance of $44,934,000 (2003 $7,578,000) and includes a contribution for administration and adjusting costs of $16,925,000 (2003 $11,401,000) resulting in a premium contribution of $104,190,000 (2003 $65,249,000).

2003	2004	2003	2004	2003	2004	2003	2004	2003
Farm Lending	Commercial Lending	Commercial Lending	Hail Insurance	Hail Insurance	Other	Other	Total	Total
$ -	$ -	$ -	$ 11,578	$ 9,025	$ -	$ -	$ 131,663	$ 91,314
58,562	15,718	13,620	47	31	-	-	75,424	72,455
3,290	6,336	9,035	-	-	1,725	3,584	278,619	192,999
-	-	-	-	-	1,582	2,425	295,291	147,749
220	148	212	3,401	3,994	7	1	10,970	28,161
1,767	790	1,249	183	176	339	323	3,067	3,624
63,839	22,992	24,116	15,209	13,226	3,653	6,333	795,034	536,302
-	-	-	12,329	10,209	3,038	5,781	608,849	588,416
11,290	11,296	10,827	840	753	217	185	52,341	47,544
42,112	4,869	5,085	-	-	-	-	47,212	47,197
6,401	-	-	-	-	-	-	5,728	6,401
2,997	1,142	543	17	(20)	-	-	5,070	3,504
-	-	-	371	172	242	219	8,060	2,771
-	-	-	1,662	1,317	-	-	1,662	1,317
62,800	17,307	16,455	15,219	12,431	3,497	6,185	728,922	997,150
1,039	5,685	7,661	(10)	795	156	148	66,112	(460,848)
-	-	-	-	-	33	-	33	171,632
-	-	-	-	-	(33)	-	(33)	-
-	-	-	-	-	-	-	-	171,632
1,039	5,685	7,661	(10)	795	156	148	66,112	(289,216)
-	50,640	42,979	49,881	49,086	348	200	132,421	421,637
$ 1,039	$ 56,325	$ 50,640	$ 49,871	$ 49,881	$ 504	$ 348	$ 198,533	$ 132,421

(4) Premiums from insured persons are net of ceded to reinsurance of $319,000 (2003 $279,000).

(5) Indemnities are net of reinsurance recoveries of $9,000,000 (2003 $108,006,000).

(6) Adjusting expense is net of reinsurance recoveries of $0 (2003 $5,400,000).

(7) The program is terminated effective December 31, 2002. The amount represents excess over estimates accrued for 2002 taxation year at March 31, 2003.

Schedule 2

SCHEDULE OF ADMINISTRATION EXPENSE

For the Year Ended March 31, 2004
(in thousands)

	Budget (Note 3(a))	2004 Actual	2003 Actual
Salaries and benefits (Note 12)	$ 33,577	$ 31,528	$ 29,298
Contracted services	8,093	7,086	5,239
Amortization of capital assets	3,450	3,683	3,311
Office accommodation costs	3,860	3,011	3,144
Stationery and supplies	1,179	1,150	989
Data processing	955	1,090	826
Travel and automobile	996	974	960
Advertising	1,040	904	801
Professional services	511	628	620
Telecommunications	820	593	579
Training, meetings, seminars, conferences	203	406	417
Directors' fees and expenses	449	398	488
Postage and freight	243	362	339
Equipment, rental and maintenance	471	349	361
Miscellaneous	261	179	172
	$ 56,108	$ 52,341	$ 47,544

Schedule 3

Schedule of Salaries and Benefits

For the Year Ended March 31, 2004
(in thousands)

	Salary and Wages[1]	Benefits and Allowances[2]	2004 Total	2003 Total
Chair	$ 66	$ -	$ 66	$ 85
Board members	232	-	232	253
President and Managing Director	178	37	215	212
Vice-President, Finance	145	29	174	178
Vice-President, Information Technology and Administrative Services	148	30	178	178
Vice-President, Insurance Operations	148	36[3]	184	179
Vice-President, Lending Operations	148	30	178	166
Executive Consultant and Research Director	148	46[4]	194	177

(1) Salary and wages are fees for Chair and Board members and regular base pay and achievement bonus for employees.

(2) Benefits and allowances include employer's share of all employee benefits, including health care, flexible health, dental and vision care allowance, group life insurance, pensions, employment insurance, accidental death/dismemberment and long-term disability insurance, workers' compensation and professional memberships. No amount is included in benefits and allowances for an automobile provided to the President and Managing Director.

(3) Benefits and allowances include vacation payments of $5,000.

(4) Benefits and allowances include vacation payments of $15,000.

Regional Map

Agriculture Financial Services Corporation is a provincial Crown corporation
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